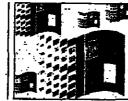
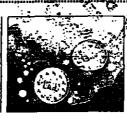


Crédit Lyonnais The prospects after **the rescue package** Page 6



Windows 98 The FT test drives the latest version IT, Page 11



Monetary union Europe's stock markets revitalised by the euro Barry Riley, Page 15

Today's surveys World Trade Systems. Slovenia

Separate sections

WORLD NEWS

Indonesia tries to restart economy as Jakarta riots subside

Indonesia's banking system is due to reopen today as the government tries to restore order and restart the economy after a wave of rioting that threatens President Suharto's grip on power. While quiet returned to Jakarta and some shops resumed trading, riots flared in other cities. Page 16; Economy paralysed, Page 3; Editorial Comment, Page 15

India plans new mid-range missile Indian nuclear scientists said last week's tests confirmed the country's capability and would be followed by development of a new Hypocrisy and the bomb, Page 14; Observer, Page 15

Clinton backs China probe US president Bill Clinton will support an investigation into claims that Chinese donations to his 1996 election campaign had swayed foreign policy decisions. Page 2; Clinton presses Yeltsin, Page 5

Kohi's keynote speech The eyes of 1,001 delegates and 700 special guests will be on German chancellor Helmut Kohl today when he addresses the annual congress of his Christian Democratic Union. Page 6

Argentina expels frantags Seven Iranians, including three diplomats, have been ordered out of Argentina amid suspicions of Iranian involvement in the 1994 bombing of a Buenos Aires Jewish centre in which 86 died. Page 2

er's body found French mountaineer Chantal Mauduit, 34, was found dead in her tent with her sherpa, also dead, on the slopes of the world's seventh highest peak, Mount Dhaulagiri i in Nepai.

Consider couple outzzed Prominent Corsican busine Michel Valentini and his wife Eridan have been arrested on suspicion of bank fraud, embezziement and misappropriation of public funds.

Beijing worried over Tibet Beijing fears that heightened tensions with India could lead to pressure on China to start an international dialogue on its rule in Tibet, diplomats say. Page 4

Korean general strike The Korean Confederation of Trade Unions, which represents workers in export industries, is to stage a general strike on May 27 to protest

against unemployment. Page 4 EU plan for free flow of goods EU countries could be obliged to take action to ensure goods can still move freely during industrial blockades of frontiers, under plans

to be discussed today. Page 6 Estrada picks his cabinet Joseph Estrada, the populist vice-president polsed to succeed Fidel Ramos as president of the Philippines next month, has started

essembling his cabinet. Page 4 Lebed waits for nell result Russian presidential hopeful Alexander Lebed may make a second bid for the Kremlin if Krasnoyarsk a province in Siberia, elects him as

governor in weekend polls. Page 6 Troops mass on disputed border Thousands of Eritrean troops were moving to an area where soldiers from neighbouring Ethiopia took up positions in a disputed border

territory last week. Halder seeks a springboard Austrian far-right leader Joerg Haider hinted he might seek the governorship in his power base of Carinthia as a springboard to

Euro prices, Page 25

BUSINESS NEWS

US and EU locked in talks on lifting sanctions threat from Cuban trade

US and European officials were locked in talks late yesterday in an affort to reach agreement on a transatiantic trade deal that could lift a US threat of sanctions against European companies that do business in Cuba, Iran and Libya. The two sides hoped to reach a deal by the start of today's EU/US summit in London. Page 5

Imperial Chemical Industries planned \$750m sale of Tloxide, its titanium dioxide subsidiary, to DuPont has become embroiled in a US investigation into its impact on competition in Europe and Asia. The sale is part of a \$3bn deal in which DuPont acquired ICI's polyester business. Page 17

Federal-Mogul, US engine parts group, could start making car brakes in a move that would reverse recent consolidation of the industry. The move comes as Dana, another US group, awaits approval of its \$3.5bn acquisition of Echlin, a car parts group with brake operations. Page 17

Kvaemer, Anglo-Norwegian engineering and construction group, blamed "unsatisfactory" performance by shipbuilding and all and gas divisions for flat firstquarter profits despite a rise in sales of 31.5 per cent. Page 19

Volvo, Swedish car group, is planning to cut its supplier base to reduce purchasing costs and improve margins. It now obtains components from about 400 "tier one" suppliers and hopes to cut that to 100 by 2005. Page 17

World Trade Organisation opens a ministerial meeting in Geneva today which marks the 50th anniversary of the multilateral trade system. Page 7

Fortis, Belgo-Dutch financial services group, today v announce an agreed \$11.3bn atshare bid for Belgium's Générale de Banque to create one of Europe's top 10 banks, Page 17

Decatix, the French group competing with Clear Channel of the US to take over More Group, may have to dispose of some ets in continental Europe if its bid for the UK bus shelter, billboards and transport advertising company succeeds. Page 18

Asda and Kingfisher's two weeks of talks that could have led to a £13bn merger of the UK retailers have collapsed, Sources close to Kingfisher say the talks were on the possibility of merger, Asda contends they looked at ways of working together in overlapping trading areas. Page 18

Singapore Airlines reported a 0.3 per cent increase in group profit to S\$1.04bn (US\$634m) for the year ended March 31, but the results included the period before the economic crisis took hold. Page 21

Group life policies managed by Japan's 43 life assurance compenies tell 25 per cent in the 11 months to February, the fall caused largely by corporate clients cancelling contracts. Page 21

Saga Petroleum, Norway's largest independent oil producer, unveiled a cost-cutting programme and management overhaul following a strategic review by new chief executive Diderik Schnitter. Page 20

World Equily Markets

The latest trends and data from more then 50 national markets at a glance

This chart shows the official internal in

Pepo Steedard & Poor's MAS expect sention the shock-larm internal rates of central the 11 countries to converge at

rapo rate by 20 hasta prices to 4.50%. Analysis sovered by

EURO INTEREST RATE CONVERGENCE

THE FINANCIAL TIMES LIMITED 1998 No.33,601

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Lus Angeles · Tokyo · Hong Kong

Microsoft set for court after compromise talks collapse

Software giant likely to face charges of abusing market power to crush competition

By Louise Kehoe in San Francisco and Richard Wolffe in Washington

The US government is today expected to launch a landmark legal battle against Microsoft, the world's largest software company, after compromise talks sed at the weekend.

In the biggest antitrust case for market power in order to crush

The lawsuits will allege that Microsoft has illegally sought to extend its monopoly in operating software to dominate other markets. Windows, Microsoft's flagship product, is the operating software installed on more than 90 per cent of the world's personal computers.

The government and state cases have been drawn up separately but focus on similar issues in particular, Microsoft's bitter ware with Netscape Communications, the pioneer of easy-to-use internet browsers.

As the talks ended in recriminations on both sides, Microsoft said it would press ahead today with the first deliveries of Windows 98, its latest version of the software, to personal computer

delay the shipping of Windows 98 with any last-minute legal mannetwres, but the company said it. did not anticipate such action. Retail sales are planned to begin

Windows 98 was at the centre government and state attorneys. In particular, government lawyers argued that the design of the new product will stifle competition in internet software by pack- Lex, Page 16

aging and integrating Microsoft's

owser with Windows Antitrust officials at the justice department attempted to negotiate more freedom for PC makers to change the appearance of the desktop display, which consumers see when they switch on.

Microsoft said it walked away from the settlement negotiations 15 years, the US justice department and 20 state attorneys-demands". Bill Gates, chairman general plan to charge the soft- and chief executive, said: "What ware company with abusing its the government is asking would significantly hamper us from competing through innovation and would put everything we have worked for and built in the past 28 years at risk."

Microsoft claimed federal and state regulators had "asserted that making the Windows operating system work well with the internet was somehow illegal".

The company said it balked at government demands that it effectively separate its internet browser program from Windows and install links to competitors' competition over internet soft- software in place of Microsoft

It said it was being forced to include rival internet browsers with every copy of Windows. which was "like telling Coca-Cola it must add three cans of Pepsi to every six-pack".

Government sources denied they had demanded such conditions about rival software, and insisted the talks collapsed when Microsoft withdrew concessions it had earlier offered.

Today's expected lawsuit, which the justice department hopes will ensure competition in the fast-growing market of interof the weekend's failed talks nst commerce, will be the bigges between Microsoft, the federal since the 1984 breakup of AT&T since the 1984 breakup of AT&T. the telecommunications giant.

Windows 98, Page 11

Antitrust hettle, Page 2

Clinton still optimistic about heading off Pakistan tests

President Bill Clinton said yesterday he still hoped Pakistan would not conduct a nuclear test, in spite of growing signs it was preparing to do so.

Speaking at the close of the understood the pressure the Pakistani government was under to respond to India's tests last week. But he held out the prospect of

"I still have high hopes that the prime minister and Pakistani government will not go through with a nuclear test," he said. "The rest of us who would supa way that meets their security

interests without the test." Pakistan's foreign secretary. jing last night for talks intended

in close consultation with its oldest and most trusted ally, China, at a moment of deepening crisis. Mr Ahmad said on Saturday

that Pakistan would never renounce its nuclear option and would choose the appropriate moment to respond to India. Mr Clinton told reporters he

Group of Eight summit in Bir- believed some European coun-US. Japan and Canada in imposing sanctions on India. Yesterday's summit ended without any collective commitment by the G8 not go further, while France, Ger-US support for Pakistan if it to take action, as France, Russia many and Britain said they did resisted the temptation to follow and Germany opposed such a not believe sanctions on India

Strobe Talbott, deputy US secretary of state, who arrived in members of the Pakistan governport that can work with them in yesterday that Islamabad had not prehensive test ban treaty. presented the US with a wish list. Washington is nonetheless considering a range of rewards to Shamshad Ahmad, arrived in Bei- keep Pakistan from carrying out tests.

ask Congress to repeal a law under which Pakistan has been denied reimbursement for F-16 fighter planes it paid for in the 1980s but delivery of which has heen blocked for more than 10

It has warned Pakistan meanwhile that it will suffer aid and credit sanctions similar to those tests go ahead.

Canada and Japan expres dissatisfaction that the G8 did would influence Pakistan's

Tony Blair, the UK prime min-Birmingham after talks with ister hosting the summit, said India could only "mitigate" what ment, said at a news conference it had done by signing the com-

> Hypocrisy and the bomb, Page 14 Observer, Page 15 India 'confirmed' as N-power, Page 4

Pearson and Hicks Muse to buy Simon & Schuster

Pearson, the media company that owns the Financial Times, and a eading US leveraged buy out firm yesterday won the auction. for Simon & Schuster, the US publisher being sold by its parent

group Viacom. According to people close to & Furst won the auction for Simon & Schuster by agreeing to pay a total of \$4.6bm. Under the terms of the link with Hicks Muse, Pearson will pay about \$3,6bn and the buy-out fund about \$1bn.

Pearson is to retain the educa-Simon & Schuster, putting them together with its Addison-Wesley Longman publishing division, and sell on its reference and business and professional arms to Hicks Muse.

Both Pearson and Hicks Muse afternoon in New York, although a formal announcement was expected later in the evening.

Marjorie Scardino became chief executive last year. Ms Scardino has stated in the past that she is keen to reinforce the company's position in educational publish-Pearson controls the world's leadness. The proposed transaction pleted on Sunday morning.

will need regulatory clearance in the US.

Pearson and Hicks Muse saw off two other bids for the operations auctioned off by Morgan Stanley Dean Witter, the US investment bank on behalf of Viacom. The other hidders were Kohlberg Kravis Robers, the buy-out fund led by Henry Krathe negotiations, Pearson, vis, and Knowledge Universe, a together with Hicks, Muse, Tate company controlled by Michael Milken, the former high-yield bond trader. Mr Milken is believed to have sought the backing of News Corporation, Rupert Murdoch's global media group.

man Sachs because Lazard Freres, the investment bank it tional publishing operations of partly owns, had been advising another potential bidder. Greenhill & Co. the mergers and acqui sitions advisory firm, advised Hicks Muse.

Analysts said that the deal would be earnings enhancing for Pearson in the first year by a declined to comment yesterday significant margin. They said that although Pearson might have been able to buy all five divisions of Simon & Schuster on The deal is the most significant sale itself, it would have had to strategic move by Pearson since sell the non-educational operations within a reasonable time to restore an acceptable

level of interest cover. For Viscom, the amount it has received for Simon & Schuster is ing, and the acquisition of Simon at the top end of the range of & Schuster will mean that analysts' expectations. The second round of bidding closed last ing educational publishing busi- week and negotiations were com-

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ALUMINIUM

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Net closes around Microsoft

A protracted legal battle between Microsoft and US antitrust regulators now appears inevitable. Barring last-minute concessions on either side, law suits charging the software industry leader with anti-competitive activities are expected today.

The prospect of years of litigation is not a happy one for either party. Neither does it hold out much hope for Microsoft's struggling competitors such as Netscape Communications, which may have a prolonged wait to find out whether they will get any court-ordered relief from Microsoft's allegedly unfair tactics.

Microsoft acknowledged over the weekend litigation would be "expensive and distracting". The company's greatest fear is that like International Business Machines in the 1970s, it may become so entangled in legal battles that it loses its competitive edge. The company's every move may proceed with the case.

relations with Iran are near

breaking point amid growing

suspicions of Iranian

involvement in the 1994

bombing of a Buenos Aires

ity to move quickly to launch new products and

For government regulators, the excitement sur-rounding the filing of landmark legislation could quickly fade as the legal process proceeds. The Justice Department and its collaborators in several state governments will be taking on one of the richest and most powerful companies in the with limited

resources of their own. The case is unlikely to be resolved until long after the not certain that the vigorous approach to antitrust regulation instituted by Joel Klein, the head of the Justice Department antitrust division, will be continued by

Microsoft, therefore, can be expected to drag out the proceedings as long as possi-ble, at least until it finds out whether its next adversary at the Justice Department is as determined as Mr Klein to Similarly, although there

ordered the expulsion of

seven Iranians, including

three diplomats, and said

relations between the coun-

tries would in future be con-

Argentina's diplomatic tina's foreign minister, has

Jewish cultural centre, in ducted "at minimal level".

is broad political support for the Justice Department's action against Microsoft, there may be less enthusiasm for the quasi-regulatory solutions that a court victory might produce. If Microsoft is forced, for example, to confer with the government

Microsoft may try to drag out the proceedings as

long as possible

can add to Windows in the future, this would be tantamount to regulation of the software industry leader. Regulation is anathema to Microsoft, but also to its

Even executives from Netscape Communications and Sun Microsystems – Microsoft's most outspoken critics - have frequently warned regulation would be the kiss of death for US competitiveness in the software market.

Argentina orders expulsion of 7 Iranians

Guido Di Tella, Argen- nos Aires was arrested for Tehran and threatened trade

questioning in connection

Last week Tehran, stung

by Argentine criticisms of its

"lack of co-operation" with

the investigation, ordered

with the case last week.

For Netscape and other Microsoft rivals, news of the collapse of talks between Microsoft and government officials over the weekend snatched away hopes of a swift settlement that might have offered them a way

their lost market share. Now these companies will hope the government will seek court orders prohibiting specific actions by Microsoft - perhaps in the areas of contracts with PC manufacturers that allegedly exclude competition - pending the outcome of the case.

quickly to regain some of

For the vast majority of PC users, the litigation facing Microsoft is unlikely to have any immediate effect. Microsoft said on Saturday it was determined to move ahead with the launch of Windows 98, its next version of the widely used PC operating system, on June 25 as

In the longer term, the antitrust case could mean slower progress in some of the most exciting areas of computer technology. Microsoft has already demon-

An Iranian citizen in Bue- commercial attaché from in Buenos Aires, in which 29

sanctions against Buenos

Iran has always denied

involvement in the blast at

the cultural centre, known

as the Amia, and in the 1992

the expulsion of Argentina's bombing of Israel's embassy

strated prototypes of a future version of Windows that include speech recogni

in technology that would enable a computer to adapt automatically to the work patterns of individual users, to translate documents automatically and to respond to gestures rather than keyboard commands or mouse clicks. Microsoft save its ability to add these or other technologies to future computer operating systems is threatened by the government's demands that it not extend Windows to include

new functions. Government officials argue their goal is to give consumers greater choice. This would mean much more than choosing between Microsoff's and Netscape's browser programs. Ultimately, users should be able to "personalise" their per-sonal computers with soft-

Argentina's mainly agri-

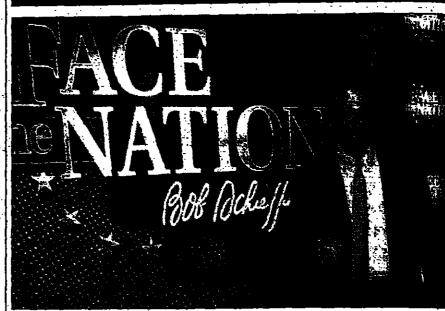
cultural exports to Iran,

which totalled almost \$640m

last year, are threatened by

the dispute. Iran's exports to

people died.



Tobacco industry battles to slay US 'monster' bill

Mark Suzman on why tobacco companies fear a \$516bn-plus bill, without legal protections, may pass in the Senate

debate over the protposed multi-billion-dollar tobacco settlement later today, the tobacco industry is likely to feel more than a sneaking sympathy with Dr

When tobacco companies first unveiled the \$368.5bn deal last June, they basked in praise from the government and Wall Street for carving out an improbable agreement that would help public health, while resolving the endemic legal uncertainties that had corroded

their share prices. Now, with stocks once again languishing, the White House again critical and public health groups launching daily diatribes against it, the industry will be doing all it can to use the debate to try to kill the monster the leal has become.

The reason for the dramatic change in attitude is that while the measure Congress is considering bears many similarities to the June agreement, it contains none of the legal protections the industry was seeking and imposes much tougher financial penalties than orig-

Charging that such moves are not only unwarranted but would force them into bankruptcy, the companies

s the US Senate begins once fearsome political clout all but evaporated following revelations it marketed to under-age smokers, it remains unclear if the industry has enough political support to head off growing santiment in favour of the

controversial bill. The new bill requires a \$1.10 increase in the price of cigarettes that backers say

it remains unclear

if the industry has enough political support

to head off the bill

would raise the total cost of industry payouts to at least \$516bn over a period of 25

In addition, instead of giving the tobacco companies broad immunity from future class action lawsuits it also proposes merely an annual cap in legal payouts of \$5.5bn as well as additional penalties of up to \$3.5bn a year if the companies miss

Under pressure from the White House, both those limits are likely to be raised fur- still need to be considered by are mounting a massive pubther when the bill reaches lic relations and lobbying the floor as a concession to operation to the different secure formal support from But with big tobacco of President Bill Clinton.

private sector analysts that the real costs of the measure would be closer to \$850bn and lead to widespread bankruptcies, most senators have so far shown little sympathy for the industry's complaints.

finance committee - which was expected to take a more tobacco friendly stance than the Commerce committee which devised the bill - narrowly approved a change that would actually require the price of cigareties to rise by \$1.50 over three years, adding hillions more to the total payout.

The new plan has aroused the opposition of some tobacco-state senators, but will now be offered as another floor amendment.

With all the momentum seemingly on the anti-tobacco side, even such outspoken opponents of the proposals as Don Nickles, the Senate majority whip, now complain that the chances of the bill passing are "too

But if he proves right and the measure does get the House of Representatives, which has so far been much less enthusiastic about

Clinton agrees to back China poll funds probe

President Bill Clinton said yesterday he would support in investigation into allegations that Chinese donations to his 1996 election campaign bad swayed important US foreign policy decisions.

Foreign policy was made in what the administration believed were the "interests of the American people", he said in Birmingham at the G8 Summit. "If someone tried to influence them. that's a different issue, and there ought to be an investigation into whether that happened and I would support that."

The New York Times said on Friday that Justice Department investigators were pursuing information

state-owned aerospace com- this decision, and Justice is pany had managed to channel \$300.000 of illegal campaign finance into the Democratic party campaign coffers in 1996.

Yesterday, it reported that in March 1996 Mr Clinton's administration overturned a decision made five months earlier that had in effect prevented US satellites being launched on Chinese rockets. The decision to take sat-ellites off a "munitions list" of militarily sensitive exports was made by the Commerce Department whose then head, the late Ron Brown, was a principal Democratic party fund-raising strategist - after a power

struggle with the State Department.

suggesting that a Chinese from US companies to take also investigating whether a \$660,000 donation from Bernard Schwartz, chief executive officer of Loral Corporation, which had a satellite carried in a 1996 Chinese launch that failed, had influ-

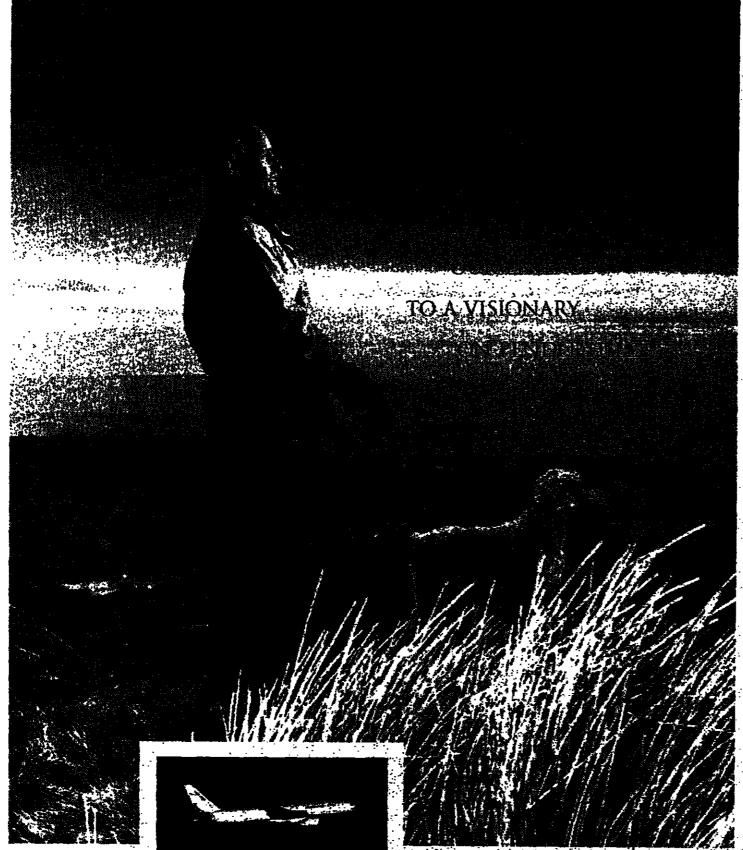
enced policy. The suggestion a US "tilt" towards China was influenced by campaign finance considerations would be damaging enough for Mr Clinton, but it has come at a particularly sensitive time. Last week India detonated five underground nuclear experts fear could set off an arms race in the region. One reason cited by India for the tests has been fear of China, which ... it has seen as There was strong lobbying favoured by US policy.

BusinessWeek

In this week's issue

- Central Europe's fast rising consumer
- The final rescue plan for Credit Lyonnais
- Peace in Ireland promises new business opportunities Surviving Asia's depressed market:

Taiwan's entrepreneurial culture



From Pendle Hill, Gerry Fitzpatrick can look down on the Rolls-Royce plant in the Pennines. Here, Gerry and his colleagues revolutionised jet engine rechnology by making engine fan blades stronger yet lighter. This technology was first launched on Boeing planes and when you fly a Boeing 777 today, you can thank Gerry's team for the smooth but powerful take-off. Boeing has

been working with European experts like Gerry and their companies for over 30 years. For one simple reason: we want to work with people who are best at what they do. Of course, building an simplane is a massive enterprise. It takes teamwork on a grand scale. Many individuals, many companies, many countries. But working together, we can do almost snything.

Jakarta riots leave the economy paralysed

Standard & Poor's, the US

credit rating agency, down-graded Indonesia's foreign

currency rating in the wake

of the rioting. The deepening

Although sovereign off-

shore debts due this year are

believed to be less than

debt, including \$8bn in

loans, more than \$7bn in

short-term trade financing

and some \$2bn in money

market lending by foreign

With interest rates stand-

ing at about 50 per cent,

Indonesia wili face problems

currency trader and former

central bank staffer. He esti-

(anbroximately \$2.45bn),

political crisis, said S&P,

Anxious times lie ahead for Indonesia's crippled business sector and its foreign partners. John Ridding and Sander Thoenes report

Burned-out shops, paralysed financial markets, and an exodus of investors; Indonesia is staring into the economic abyss. "It doesn't really have an economy at the moment," said one diplomat in Jakarta. "Business is in a state of shock."

The shock waves are potent. Dislocation and decline resulting from last week's riots may fuel further ability to implement \$10bn, the central bank also civil unrest and increase pressure on President Subar- adjust, their credibility to's regime. They have raised the risks for foreign banks exposed to Indonesia, sent shudders through regional markets and rown into doubt the \$43bn

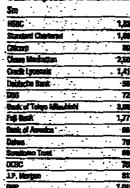
IMF rescue package.
Diplomats and bankers said the US and foreign governments wanted to keep the IMF package in place - to be used as a carrot to encourage political reform.

Indonesia's government, too, said the agreement continued. Ginandjar Kartasasfor economy, finance and by the recent chaos. industry, claimed last Friday's decision to reduce the fuel price rises that sparked the riots had been discussed with the Fund. But the concessions on

fuel prices, an important was croding its ability to serplank of the latest IMF vice public sector debt. agreement, will further erode confidence in Mr Suharto's willingness and reforms. "Every time they guaranteed private bank declines," said Umar Juoro, an economist with an Islamic think tank

He thought the IMF package had become something of a sideshow to Indonesia's political drama, a view supported by the withdrawal of the Jakarta IMF team. A more pressing problem

is that the country's economic crisis has escalated far beyond the difficulties the IMF sought to address. The pressures facing companies and financial markets



each month. "The central bank will no longer be the lender of last resort - it will be the borrower of last

servicing its central bank bonds, said Theo Toemeon, a Although the central bank said clearing operations mated the central bank had hiatus in the financial system threatens further corpoborrowed some Rp27.000bn rate casualties. Should curwhich would imply some

cent of its value since the onset of the crisis last year. would fuel inflation and add to the 50 per cent fall in real

Many are preoccupied "That is my biggest concern," said one senior banker.

The ethnic Chinese community, which was targeted in the riots, has provided the backbone of Indonesia's retailing and distribution sectors. But many ethnic Chinese have now left for safer shores. Disruption of their trading businesses threatened supplies of food and healthcare. Exports will be crippled by lack of transport and trade finance.

Not all are so gloomy. Some bankers and econoswift return in confidence if the political crisis was resolved, while others made rency trade be resumed, a distinction between the

lar" Further falls in the economy have been unafrupiah, which has lost 70 per fected by the upheaval. Many commodities and primary export industries are unscathed.

Paralysis rather than collapse was the verdict of some commentators. As one banker put it: "The ecoia's distribution sector. nomic crisis will itself add to pressures for political reforms which are now necessary to restore investor confidence." But with a complex and potentially violent political endgame in prospect, anxious times lie ahead for Indonesia's crippled business sector and its foreign

> partners. shrink and foreign exchange risks rise, foreign banks are looking ever more nervously at their exposure to Indonesia. The next round of talks with creditor banks is due in Frankfurt on May 26. But that, like everything else in Indonesia's crippled economy, now seems on hold.

The downside is clear. "There is still a lot of debt

would be "a dive for the dol- Large swathes of the rural Charles Blitzer, head of emerging markets research at Donaldson, Lufkin & Jenrette. Bank of Tokyo Mitsubishi, Chase Manhattan, and HSBC Group are among the most exposed.

Mr Blitzer sees a possible knock-on effect in bank lending to other emerging markets and a souring of sentiment elsewhere. This was demonstrated last week when Russian bond yields widened and the rouble came under pressure.

Closer to Indonesia, concerns are more acute. Thailand and Korea, the other regional IMF patients, have new political leaders to push through economic reform. But they still face the real economic pain of adjustment. Singapore and Malaythreat of mass emigration and ethnic tensions.

"Everyone is watching Indonesia," said a banker in Singapore. He described the country as a "ghost economy". And as with other ghost stories, most are

one strong in the chain of

overdue and left more room

for grassroots opposition

groups such as his. But he

acknowledged the opposition

was too divided to pose

much of a threat to Mr

waiting for the people to say:

'We need the military'," he

said, convinced that senior

generals orchestrated the

riots to undermine public

support for the student pro-

tests and crackdown. "If this

happens, the student move-

ment, the whole reform

Foreign companies put their operations on hold

Indonesia's riots have given a new meaning to the term business travel. Multinationals have evacuated staff. families and many local employees in response to the country's civil unrest.

The exodus underlines the fall in investor confidence. "You have widespread absentee management," said one banker, who left Jakarta for Singapore. "It will have a crippling effect."

While ethnic Chinese businesses bore the brunt of the nies were also directly affected. The Multi Bintang brewery, controlled by Hein eken of the Netherlands, was

Wary of similar incidents. many multinationals have withdrawn staff and son, the Swedish telecoms company, Federal Express of the US and Taiwan's President Foods are among the latest companies to close their Indonesian offices.

Mr Hatta, the student also taken precautions. The leader, said the loss of faith big Japanese carmakers in the military was long have suspended production at several plants.

Many foreign financial sche Bank, Credit Suisse First Boston and the Bank of Tokyo Mitsubishi, have with Suharto. "The military is drawn staff or suspended operations. So have several big oil groups, such as Total of France and Mobil of the

> SKF, the Swedish roller bearings manufacturer, SKr500,000 (\$65,000) a day because of the closure of its Jakarta plant and sales

But it is not a picture of uniform gloom. Indonesia's main mining areas for copper, tin and nickel are far from Jakarta and have not been affected by the strife.

They were supposed to protect the people

Shocked by the images of soldiers standing idle while looters rampaged through their capital. Indonesians said they had lost faith in the one institution they looked upon to salvage their "The military has lost all legitimacy with the people," said Umar Juoro, an economist with an opposition think tank. They are supposed to protect the

people but they didn't." Disillusionment with the military, the 500,000 men and women who pride themselves on having chased out the Dutch colonial army in 1949 and have dominated politics ever since, could leave more room for civilian groups to oppose the current government. But as they are also weak and divided, the military's fall from grace may only aid President Suharto's efforts to buy army, relatively small in Wiranto. And now there is time, analysts and activists

Some regiments of the face crisis points with all Strategic Reserves, the elite troops, stayed in their barracks in southern Jakarta as looted shops on Gadja Madah street. "Toss stones all you want, just don't toss them at me," one yelled at

the passing mob. "Where was the army?" asked Hakim Hatta, a student leader. "They only protect the rich, those who pay for protection."

keep order raises concern for more widespread unrest when students commemorate the founding of Indonesia's first nationalist movement on Wednesday with hig nationwide protests:

commander of the armed forces, last week said his comparison with a popula- nobody left to take Suharto's tion of 200m, "is not ready to place.

crowds all over the country". The other shock, especially to Indonesia's elite a nearby shopping centre and foreign governments was set alight. Marines which had looked upon him crouched on the pavement as an acceptable alternative smoking cigarettes as youths to Mr Suharto, was the failure of Mr Wiranto himself to take any political initiative in the past few days. "Were

was W?" said a friend of his

in anguish. In just a few public statements. Mr Wiranto alienated students by blaming them for sparking the violence. He also failed to condemn the The military's failure to shooting of six students and expose its perpetrators, who are believed to be either his rivals in the top brass or Mr

"Perhaps he realised he was not in control of his army, that he stood alone." General Wiranto, chief said his friend, a prominent business executive. "Everybody is so disappointed in



Army tanks patrol Jakarta streets as shops began opening their doors yesterday. Inset: Gen Wiranto, chief commander of the armed forces: failed to take any political initiative

General Prabowo Subianto, Mr Suharto's son-in-law and commander of the Strategic Reserves, was out to make

ensuing riots. They have no proof, but they might see their plot theory confirmed if Mr Suharto were to revive

Many Indonesians think ing of the students and the outside the regular armed forces, and appoint Mr Prabowo to it, as many predict. Others think Mr Suharto weakened the army's top Mr Wiranto look ineffective KopKamTib, a powerful brass to pre-empt any threat agency that used to operate to his authority. "That is

movement is in danger." "There is still hope for putting Suharto in a corner. Mr Juoro said. "To persuade him to transfer power peacefully. If he doesn't we risk the Africanisation of the country, where each group

does what's best for itself."

) back probe



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Tests 'confirm India as N-power' Spectre of dialogue on Tibet irks China

India's top nuclear scientists said yesterday that last week's nuclear tests confirmed the country's nuclear weapons capability, and would be followed by development of a more advanced intermediate range ballistic

A.P.J. Abdul Kalam, chief of India's Defence Research and Development Organisation, said his agency had worked with the country's Energy in "a national mission to confer on the country a capability to vacate

In what was dubbed the Shakti (Power) '98 campaign. the five tests provided Indian scientists with "critical data" to "validate" the design of nuclear weapons for different purposes, and various delivery systems, R. Chidambaram, chairman of

Since India conducted the nuclear tests last week. some foreign scientists have questioned its claim that it exploded a thermonuclear device, normally a hydrogen bomb. Yesterday Mr Kalam Mr Chidambaram

tegic affairs analyst at the New Delhi-based Centre for Policy Research, an independent think tank, said the tests clearly indicated India was past the "development phase" of nuclear weapons design, and that it "has a tiny nuclear arsenal already

"They obviously had copies of what they have tested - these are not the only ones," Mr Chellaney said. "India is now a nuclear

The scientists said India's

Hindu nationalist-led gov-

ernment gave the go-shead

month immediately after its rival and neighbour Pakistan tested its Ghauri missile, 1,500 km - reaching well into Indian territory. In the initial round of tests, the scientists said, India simultaneously exploded a fission device with a yield of 12 kilotonnes, a thermonuclear device with an explosive yield of 43 kilo-tonnes, and a sub-kilotonne device. Two days later, India tested two smaller devices, prototypes for nuclear artillery and other "battle-field nukes Mr Chidambaram said the tests had "significantly

enhanced" India's ability to



lated tests of new nuclear critical experiments in the future, if considered neces-

The Bharatiya Janata party-led government has also approved resumption of efforts to improve on its intermediate range missile

"fire" in Agni Hindi. So far, India has conducted three tests of Agni, an indigenous missile which has a range of 2,500 km. 'Agni has been developed.' Mr Kalam said. "If needed, it

sary for effective deterrence of India's powerful nuclear neighbour, China. Mr Kalam said the government had given approval to proceed with the next ver-

China is concerned that heightened tensions with India could ultimately lead to increased pressure on it to start an international dialogue on the question of its rule in Tibet, officials and foreign diplomats said. Senior foreign diplor

in Beijing sald that China's key strategy was to resist any notion that a dialogue on Tibet and other source of tension between Beijing and New Delhi might be one way to defuse the new threat to regional security posed by India's recent nuclear tests. India regards Tibet as an autonomous region in China and does not officially recognise the Dalai Lama's government in exile, despite providing sanctuary for it.

The rationale for seeking to reduce tensions through a Sino-Indian dialogue was made clear after George Fernandes, the Indian defence minister, identified China as his country's greatest security threat shortly before New Delhi exploded five nuclear devices last week. "China wants to keep the

issue of India's tests in a broad international frame

of content to the problem of shown little inclination to [nuclear] proliferation," said one diplomat. "It does not want to get sucked into down an informal Russian negotiations on Tibet or overture to mediate. other boundaries in the

Himalayan region." Ye Zhengjia, senior in the China Institute of International Studies at the foreign ministry, said bension between India and Pakistan, one of China's staunchest allies, was not a matter for Beiling.

"As for the problems etween India and Pakistan they have to sort out their problems on their own. There is little here that China can help with," Mr Ye

China's official stance toward India's tests has been to condemn them but not to take actions, such as endorsing sanctions, which could agonise New Delhi. It has also called for international pressure to stop New Delhi turning its nuclear capacity into actual weapons.

Diplomats said Beijing, which is Asia's only declared if India was to start developing weapons, international essure on the two countries to seek resolutions to their disputes could inten-

A foreign ministry statement from New Delhi at the weekend said India was open

armament and relations

discuss resolving bilateral disputes and has turned

brushed aside US sugges tions for resumption of talks with the Dalai Lama, the lives in exile in India. A foreign ministry spokesman said the Dalai Lama, while professing a desire for an actually bent on seeking independence for the Hims. layan region, which has been under Chinese rule Since 1950.

. Commentators, said the issue of Tibet was especially sensitive for a Beijing government which has set territorial goals, such as reunification with Talwan as paramount. There is also a sense that the prethe Dalai Lama, now 62 will be transient and that his reincarnation - who by tradition is a small boy - will lack his international stat-

weekend a resolution by the European parliament to call for a United Nations commission of inquiry into Tibet and appoint a special UN rapporteur for the Himalayan region. Zhu Bangzao. foreign ministry spokesman said Tibet was an internal affair of China and foreign countries had no busines

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Estrada starts to assemble his likely cabinet

By Justin Marozzi in Manila

A week after national elections in the Philippines, Joseph Estrada, the populist vice-president poised to succeed Fidel Ramos as president next month, has started assembling his likely cabi-

according to the latest returns, though a final declaration is still long off. But investors and political commentators are already scrutinising Mr Estrada as he starts to assemble his ministerial team. Mr Estrada is expected to be a much more hands-off leader than his predecessor but the market is hoping his administration will simply carry on where Mr Ramos left off.

"Whether Mr Estrada can continue the liberalisation and free-market orientation and at the same time deliver nore benefits to the masse is a very interesting question," said Ernest Leung, president of Philippine Depositors' Insurance Corpo-

Business as usual will be the theme if Mr Estrada is inaugurated as president on June 30. That impression is suggested by Gahriel Sing-son's decision to stay on as central bank governor at east through the transition period, and the probable continuation of the respected Domingo Siazon as foreign secretary.

The new finance s is expected to be Edgardo Espirita, head of Westmont Bank, a medium-sized local bank. He is a former president of state-owned Philip-pine National Bank (PNB) and led its partial privatisa tion in the late 1980s.

Mr Espiritu said Estrada administration would continue with the

Ramos reform process.

"We think the issue of economic reform is already part of the law of the land and we will not change this because it is the only way to move forward." He said further privatisations would follow. National Power Corporation. the largest, heads the list, although its privatisation has long been delayed in congress. Napocor absorbs over 40hn pesos (\$1hn) in subsidies annually.

Disposals of the govern-ment's stake in blue chip groups such as Manila Electric Company (43 per cent), PNB (45 per cent) and Philip-pine Airlines (20 per cent) are other priorities.

The banking sector,

opened to foreign investors by the Ramos administra tion, is in need of further strengthening. Capital adequacy ratios for the big banks meet international standards but consolidation

Korean general strike set for May 27

By John Burton is Seoul

The dissident Korean Confederation of Trade Unions, which represents workers in main export industries, is to stage a general strike on May 27 to protest against growing unem-

ployment. during a weekend rally in Seoul that passed peacefully as rains cut the expected number of demonstrators. renewed labour violence after 20,000 workers and students clashed with tear gasfiring riot police on May

The KCTU said it would call the strike unless the government agreed to five demands, including an end to mass redundancies, job security guarantees, mantling of industrial conglomerates and renegotia tion on bail-out terms with the International Monetary Fund. Redundancies aimed at restructuring Korea's debt-heavy industries were a main condition of the IMF's \$58bn rescue package in

A strike by the KCTU, the smaller of the nation's two labour groups, would pose a political problem for the government ahead of local elec tions on June 4, the first test at the polls for the new administration of Kim Dae-jung since taking office in

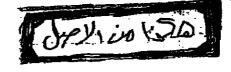
late February. However, the KCTU appears to lack public support for industrial action, with only a third of Koreans saying they would back strikes to protest at unem-ployment, according to a ecent opinion survey.

The KCTU earlier agrees to accept a law to end lifetime employment guarantees in return for better jobless benefits and management reforms among the familyowned conglomerates, or chaebol. But the union group claims the government has failed to keep its promises as unemployment has doubled to 1.5m, or 6.5 per cent of the workforce, since December mainly because of bankruptcles

among small busine The jobless number is expected to reach at least 2n groups begin to cut their workforce in response to weak domestic demand. The Samsung Economic Research Institute recently warned unemployment

provoke social unrest. The larger and more conservative Federation of Korean Trade Unions has also called for limits on job cuts and instead proposed wage freezes, reduced working hours and job-sharing.

above 2m would probably



Indonesia exposes political dimension to Asian crisis

All along, events in Asia had been expected to dominate this year's G8 summit of the it crystallise the uncertainty world's leading industrial nations and Russia.

It was the first time global leaders had met since last year's financial crisis in the region, and they were ready to react with sage warnings about the need for reform to the "international financial architecture" - the complex structure of institutions and policies for supervising the world's financial mar-

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Sure enough, the lessons of the crisis took up the longest part of the discussions, and the eight leaders duly published their calls for greater transparency, better international supervision and closer attention to the functioning of global capital

But their formal agenda was, of course, overwhelmed by two more immediate Asian crises - the India-Pakistan nuclear weapons race and the turmoil in Indon-

While the failure to agree on anything other than tainty haunting financial words with which to reprimand India was seen by Americans as disappointing, much more significant was the leaders' observations on

lence and more political Though US officials pointed tral role of the IMF. But as reform.

In fact, the Indonesian crisis and the G8's response to next in Asia and about how to deal with it. The most obvious problem evident at the G8 meeting was the scale of the threat an Indonesian meltdown poses to the

Perhaps the most striking picture of the summit was that of President Bill Clinton and Ryutaro Hashimoto, the Japanese prime minister, walking into the leaders' ses-sion at the redbrick mansion of Weston Park, arms draped

It was striking because, until a week ago, Mr Clinton had been expected to come to Birmingham with a stern message for Japan. In discussed Asian financial increasingly aggressive turbulence," said Sadaaki terms in the last few weeks, Numaata, Mr Hashimoto's the US has said Japan holds the key to resolving the Asian crisis. By stimulating is the US and Japan squabblits economy and sorting out ing while countries in Asia the mess in its banking sysgo up in flames," was how tem, Tokyo could help another observer put it. remove much of the uncermarkets.

But from officials and the participants themselves, the impression given this weekend was of extraordinarily crisis.

out that Japan promised at the world leaders were again about what may happen fon was eager to emphasise Hashimoto is doing.

The urgency of the situation in Indonesia was cited by officials as a critical factor in the toning down of the wo countries' differences Japan has a much closer relationship with Indonesia

And US and Japanese officials are well aware that Indonesia represents potentially a serious downward twist in the Asian spiral, with Japanese and European banks heavily exposed there.

than any of the other leading

That concern contributed an important element in the backdrop to all this as we official spokesman. "The last thing the world needs to see But in the longer term the

Indonesia to the world's leaders is that it significantly undermines their fundamental approach to the

the weekend's meetings to endorsing the Fund's role in take "decisive" action on its the region, IMF officials financial problems, Mr Clin- were, literally, packing up shop in Jakarta. It seems his approval of What Mr certain that, rightly or wrongly, the IMF will have to shoulder some of the blame for the collapse in

But the bigger problem Indonesia presents for the G8 is that it points up the difficulty, in the abs democracy, of the IMF and its international financial

Since Indonesia first fell into financial problems last summer, the US has barely mentioned political reform ing further leverage with the government of President Suharto. And US officials know that in the rest of Asia, the economic success of the last 30 years has, in many countries, been accompanied by an absence of serious political reform. To call for open government as a an integral part of economic reform would alienate many countries, not least China, bigger threat posed by praise yesterday for its role

in the Asian financial crisis. And yesterday's communique contained no reference to the need for democratic structures in emerging mar-Indonesia – an inconsequen-tial call for an end to vio-between the two men. US, has emphasised the cen-governance".



Clinton urges Yeltsin to halt Iran missile transfer

By David Buchan, Diplomatic Editor

President Bill Clinton yesterday pressed his Russian counterpart, Boris Yeltsin, to fulfil promises to curb the transfer of missile technol-

ogy to Iran. US officials suggested that such curbs were part of the key to ending the dispute over US threats to apply sanctions to companies of other countries that do business with Tehran,

the G8 summit in Birmingham, Great Britain, Mr Clinton raised the issue of Russia's "illicit and dangerous" missile technology transfers to Iran, a senior US official

Over the past year, Mr that it would end these summit in London. transfers. But Strobe problems in implementation effective implementation of Start 3 treaty.

and enforcement of Russian export controls, "in line with law and executive orders". Mr Yeltsin yesterday recalled his personal commitment and that of his

Under its Iran-Libya Sanctions Act (ILSA), the US is threstening to impose sanctions on Gazorom of Russia. along with Total of France and Petronas of Malaysia, for investing in a new gas field in Iran, which Washington believes may be develop-In a 45-minute meeting ing weapons of mass with the Russian leader after destruction as well as sponsoring terrorism and disrupting Middle Bast peace

new government, Mr Talbott

efforts. In the margins of the G8 summit, US and European Union officials continued their negotiations to settle this issue, which will be dis-Yeltsin had promised the US cussed at today's US-EU

The G8, which includes

commitments to prevent the proliferation of weapons of mass destruction.

Jim Steinberg, the deputy US national security adviser, inderlined the importance of this G8 commitment in the context of Iran, where "it is very important to have Americans and Europeans

agree". It is clear that Washington is making stricter export controls by western Europe and Russia a necessary though not perhaps a sufficlent, condition of dropping the threat of sanctions action under ILSA.

On the issue of a planned visit by President Clinton to Moscow later this year, Mr Talbott said the prospects for this would be improved if the Russian Duma ratified the Start 2 nuclear weapons reductions treaty. Mr Clinton wanted a summit to Talbott, deputy secretary of the US and four EU coun- focus on further cuts in ments will put more diplo-

Solution eludes sanctions dispute

By Gerard Baker

US and European officials were locked in talks last night in an effort to agree a transatiantic trade deal that could lift a US threat of sanctions against European companies that do business

in Cuba, Iran and Libya. The two sides were still hoping to reach a deal by the start of today's twice yearly EU/US summit in London between Tony Blair, British prime minister, Jacques Santer, president of the European Commission and Bill Clinton, US president.

"We are working very hard in advance of the summit... on some of those problems," said Mike McCurry, the White House

press secretary.
But Mr McCurry declined to share the optimism of Mr Santer, who said on Saturday he was hopeful a deal could be achieved.

Without an agreement, the US must decide soon whether to impose sanctions on two companies, Total of France and Gazprom of Russia, over their investment in Iran's oil and gas sector. The US Iran-Libya Sanctions Act was passed by Congress in an effort to starve terroristsponsoring states of international trade and investment. But the Clinton administra tion has so far waived sanctions pending negotiations with the European Commis

The EU wants the US to drop the threat of sanctions in exchange for a European agreement not to press a egal case against Washing ton at the World Trade Organisation over another piece of contentious US legislation, the Helms-Burton Act, which attempts to restrict the activities of for eign companies in Cuba.

Congress is putting pres sure on the White House not to back down. US officials are hoping European governstate, said there were "still tries, agreed to "ensure the nuclear arms in a possible matic pressure on Iran and Libya as part of any deal.

Poor win a little relief on debt

,

Leaders of the Group of was reined in, principally by Eight industrialised count he now familiar US oppositries yesterday announced tion. Instead of promising to an agreement in principle to relax rules under which extend debt relief for the countries qualify for extra world's poorest countries, but stopped short of making debts under the IMF World an offer of far-reaching debt

As 70,000 debt relief cam-Blair, the UK prime minister, acknowledged he had failed to persuade his G8 colleagues to adopt a more genHis "advanced position"

Bank Heavily Indebted Poorer Countries (HIPC) initiative, the eight leaders offered merely "to support chain around the G8 summit - the speedy and determined venue at Birmingham, Tony extension of debt relief to

more countries".

was no promise to widen the scope to other countries or to accelerate the special lending programme.

"We encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible so that all can be in the process by 2000," the "This is a huge disappoint-

ment. It seems to be shifting the blame to the poorest countries through an empha-Six countries have already sis on good behaviour and been declared eligible for the need to meet tough HIPC HIPC relief, and two more requirements," said Angel

Coalition, which organised the Birmingham protests.

Several G8 leaders argued that the principle that governments should establish firm track records in sound fiscal and monetary policy was critical. Like the US, Germany has been unenthuslastic about extensions of debt relief. German officials say they had written off more official debt to developing countries than all but

The eight did agree to step up co-operation on malaria and other diseases.



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Siberian election drama mounts

By Chrystia Freeland in Moscow

froid. Alexander Lebed, the reserve general who hopes today to become governor of Krasnoyarsk region, went to the theatre yesterday afternoon. But the more compelling drama was in nearby polling stations, where Siberian voters flocked to make one of Russia's most important political choices

The electors of Krasnoyarsk, a vast province in Siberia, turned out in a strong ballot estimated at at least 60 per cent, to select a new governor.

A former paratrooper who briefly served as Boris Yeltsin's national security chief in 1996, Mr Lebed has travelled to Siberia in a make-or break campaign to re-launch his political career.

If he wins, Mr Lebed, who came third in the 1996 presi dential ballot and was the pollsters' favourite in the weekend vote, could be well for the Kremlin in two years. But if he loses he could be consigned to political obliv-

the fragile balance between Moscow's warring political and financial clans, the Krasnoyarsk race has attracted a star-studded cast of politicians and celebrities.

Backed by the Kremlin, incumbent governor Valery Zubov won a personal endorsement from Yuri Luzhkov, the popular mayor

Mr Lebed had star-power too: last month Alain Delon. the French film star, paid a flying visit to Siberia.

Mr Lebed's appeal for voters disillusioned by Russia's post-communist political establishment won him 45 points ahead of Mr Zubov in the first round of balloting in April. Yesterday's run-off will determine a winner, with unofficial results

GERMAN LEADERSHIP BATTLE DELEGATES PRAY CHANCELLOR'S SPEECH WILL BREATHE NEW LIFE INTO PARTY'S FLAGGING CAMPAIGN

awaits Kohl's conjuring trick

The eves of 1.001 delegates and 700 special guests will be on Helmut Kohl, Germany's chancellor, this morning when he rises to give his keynote address to the annual congress of his Christian Democratic Union

The 68-year-old chancel lor's speech has been billed as the most important in his long campaign for an edented fifth term. If Mr Kohl is to have a chance of overcoming the large opinion poll lead of Gerhard Schröder, the opposition Social Democratic candidate. he must put new life into the the general election on Sep-tember 27 and recapture the setbacks.

A weekend opinion poll by the Mannheim-based political research group For-schungsgruppe Wahlen (FGW) for the ZDF television channel put support for the CDU and its Bavarian sister party, the Christian Social Union, at a new low of 29 per cent. Only 26 per cent of 1,290 voters polled last week wanted Mr Kohl to stay, against 65 per cent favouring Mr Schröder as chancellor. Mr Kohl has been written

off many times only to

he can work the same magic this year. But the starting position is much worse.

According to FGW, the three parties of Mr Kohl's coalition are supported by 34 per cent of voters compared with 39 per cent in May 1994. Support for a putative coalition of SPD and the environmental Green party is running at 57 per cent against 50 per cent four years ago.

The slump in support comes after three rotten. months for Mr Kohl. He miscalculated badly in expecting Oskar Lafontaine, the SPD's left-leaning chairman, to be selected as opposition candipopular Mr Schröder. The CDU was weakened by a prolonged and messy squabble with the CSU over

energy policy that dominated Easter headlines. The launch of the euro, a centrepiece of Mr Kohl's policy, on May 2 was marred by hageling over the presidency of the European Central Bank. But the chancellor's for-

tunes have since improved. The praise beaped on Mr Kohl by President Bill Clinton during last week's visit to Berlin was a welcome campaten boost. The decision of the local SPD to form a minority government in

the eastern German state of Saxony-Anhalt that will had no impact on Mr Kohl's depend on the support of for-mer communists is a threat to Mr Schröder's campaign to capture "the new centre" of German politics. After a long delay, the economic

The FGW poll, conducted between Monday and Thursday last week, probably came too soon to capture any benefits for the CDU from these developments. The group's finding that more Germans (34 per cent in May against 19 per cent in

February) believe the econ-

omy is improving has so far Mesnwhile, the proportion

of voters believing the gov-erning coalition of CDU/CSU and the small Free Democrat party can win in September fell to 15 per cent from 21 per recovery is reducing Germany's army of 4.42m regiscent in April. The number expecting either an SPD or SPD-Green victory grew to 71 per cent from 66 per cent.

Mr Kobi is famously dismissive of opinion polls. But FGW's finding that 56 per cent of CDU/CSU supporters balieve Mr Schröder will win the election is a measure of what the chancellor must

'That would allow them to

construct a group of core,

"friendly" investors. Talks

have been taking place over

which has commercial links

with the bank, has said it

would be willing to acquire

Others, including Nippon

Life of Japan, are less enthu-

siastic than a few months

go because of the crists in

the Asian markets. But, at a

up to 10 per cent.

EU plan to ensure free flow of goods

By Hell Buckley in Brassel

European Union countries could be obliged to take action to ensure goods can still move freely during industrial blockades of from tiers, under plans to be dis-cussed by ministers today.

The move is a reaction to a series of recent disputes -particularly by French farm ers and truck drivers - that have blocked ports and borders and disrupted millions of dollars of trade. Under compromise plans

drawn up by the UK, holder of the EU's rotating presidency, for a "rapid response mechanism in such cases EU states would agree to a regulation emphasising the duties of all member states to ensure the single market can function properly.

Countries would also sign up to a political agreement that they would act swiftly to combat any disruption of the flow of goods during dis-

Although it has issued critical statements and warnings, the European Commission has proved pow eriess to deal with two blockades by striking French

truck drivers. The compromise plan to be discussed today falls short of original Commission proposals which would have given emergency decision within days forcing EU govern-

ments to take action: Ministers may also take a step forward today on deal ing with long-delayed plans for a European Company Statute that would enable multinational companies to set up a single corporate

entity within the EU. They will attempt to agree on the draft regulation of the statute, although the crucial provisions on consultation of workers in the European Company Statute - disagree ments over which have held up adoption of the directive since the early 1970s - would still have to be agreed by EU social affairs ministers.

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Everyone's a winner in deal to restructure Crédit Lyonnais

The pact has enabled both Van Miert and Strauss-Kahn privately to claim victories over each other. Andrew Jack explains

Crédit Lyonnais, the French state-owned bank, may have had its claws severely trimmed, but from the middle of this week it seems poised finally to be let off its

Five years after the French government began taking serious remedial action to cope with rising losses at the bank, officials appear to have reached agreement with the European Commission over a restructuring plan satisfac-

tory to both sides. Late last week, Karel Van Miert, the competition commissioner in Brussels, and Dominique Strauss-Kahn, the economics, finance and industry minister in Paris. approved final details that should lead to a positive vote at a formal commission meeting on Wednesday.

That will lead to approval of the biggest state aid case and the implementation of a series of measures that officials argue may ultimately cost the French taxpayer more than FFr145bn (\$24bn).

sell more of its assets, and credit. be privatised by October

In public, the authorities in Brussels and Paris are remaining diplomatically quiet about the deal. In pri-

The result is that the bank will emerge as a

leaner business

satisfaction and claiming significant victories over each other. In reality, it is far from clear whether the planned solution is the best possible. in terms of minimising comtaxpayer costs down, maximising the bank's future sale value, or adding new condi-

the considerable extra aid that is now envisaged. But it has allowed both Mr Van Miert and Mr Strauss-

The lion that symbolises In exchange, the bank will Kahn to save face and claim

Under the terms of the new plan, Crédit Lyonnais will be obliged to reduce its sets – from 1995 levels by FFr680bn, to penalise it for state help it has received. That is sharply higher than the FFr310bn imposed in the previous plan three years

However, the higher figure includes some assets - notably FFr25bn in South Amer ica - which were already earmarked for disposal in the 1995 plan, and cuts in the bank's French operations already under way as part of a cost-saving exercise which mirrors the restructuring of most of its domestic competi-

While only a few weeks ago Brussels was still demanding the sale of all of the bank's European activitles outside France, the plan allows it to preserve essential activities in London, Luxembourg, Switzerland and Frankfurt. It must sell FFr64bn in assets in Asia or North America, but these are likely to be relatively



symbolic and non-strategic. Significant remaining assets sales in the coming months - notably of BiG, its German subsidiary - were aiready necessary to meet its 1995 commitments, which obliged it to reduce by half its commercial presence in Europe.

The result is that Credit Lyonnais will emerge a leaner business, but still with a strong position as a universal bank in France with a significant international presence in the financial markets and a global service for corporate clients. The new plan stipulates

the French government will reduce its participation currently some 82 per cent directly and indirectly - to a number of months, and less than 10 per cent. But the 1995 plan already demanded Allianz, the German insurer the privatisation by the end of next year. And Brussels, which can-

not technically demand privatisation, has been forced to let Paris determine the way in which the sell-off will

The result is that it will probably take the form long defended by Credit Lyonnais' own executives: a sale in the coming months to several shareholders, including that by October next year, a partial market flotation.

time of considerable bank consolidation across Europe and the US, there is likely to be little problem in finding new shareholders if the price is anywhere near right.

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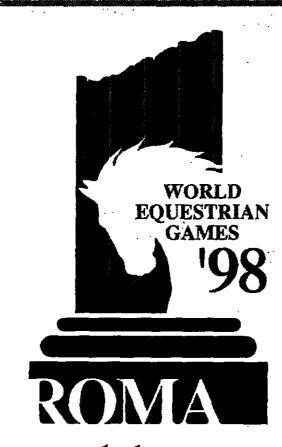
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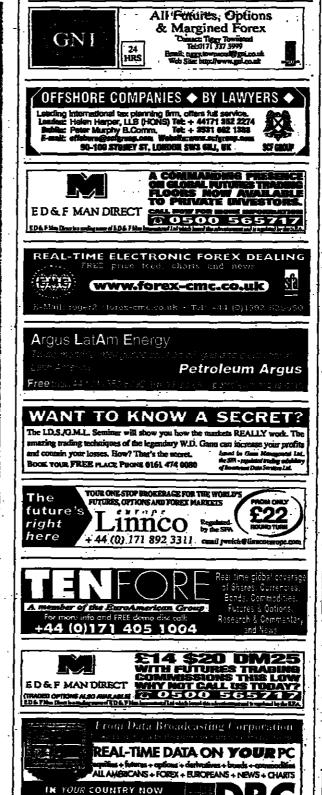
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NEWS DIGEST

FRENCH POLITICS

Liberal Democracy votes to leave UDF grouping

The centre-right Union for French Democracy, crippled since regional elections last March, was dealt a new blow at the weekend when one of its two main groupings decided toleave. Members of the Liberal Democracy group, holding their national convention, voted 84 per cent in favour of the pro-

Participants and observers at the convention suggested that the move would quicken the death of the UDF, one of two elements that have long made up the French right, along with the Gaullist Rally for the Republic.

The UDF and the RPR, the party of President Jacques Chirac, agreed last Thursday to form an alliance expected to start functioning this autumn.

The president of Liberal Democracy, Alain Madelin, told the convention that the late of his organisation was "not to melt into a big centrist party". Some on the right suspect the Liberal Democrats of sec

a rapprochement with the extremist National Front. Mr Made

SOUTH AFRICAN POLLS

Nats lose string of safe seats

The National party, which imposed South Africa's apartheid regime for four decades before handing power to the black majority, could lose its status as the official opposition at the next general election in 1999 following a string of severe local poll defeats and defections to other parties.

Seven NP councillors switched to the opposition United Democratic Movement at the weekend, joining dozens of other party members, including former cabinet ministers, who have abandoned the "Nats" in the past year.

The latest defections followed defeats in three local elections last week in former NP strongholds. In the predominantly white district of Rosettenville south of Johannesburg which one NP member of parliament had described as the party's safest seat - the liberal Democratic Party won nearly 90 per cent of the vote.

The DP also won in Brakpan, east of Johannesburg, and in the "coloured" (mixed-race) area of Bergvliet in the Western Cape; in Bergvliet the NP was knocked into third place by the newly-formed UDM. Victor Mallet, Johannesburg

PERU GAS EXPLORATION

Investment decision delayed

Peru has granted Shell and Mobil a further 60 days to decide whether to go ahead with the full \$3bn development of the Carnisea natural gas field in the south-eastern jungle. Shell requested a six-month extension, claiming it still did not have sufficient technical data to evaluate the project.

Although the extension is shorter than requested, Shell said it remained confident that the Camisea project would proceed and that it would make a final investment decision by mid-July. Shell said a delay was needed because bad weather had held up drilling and analysis.

Aside from the fechnical studies, Shell must now settle unresolved regulatory matters including whether it will be allowed to take part in gas distribution to smaller industrial cli-

it will also have to clinch a big enough potential market for natural gas to justify its ambitious project to run a dual pipeline across the Andes to the coast. Jane Holligan, Lima

ISRAELI GDP

Growth remains sluggish

Israel's stuggish economy showed no ago of recovery during the first quarter of 1998, as gross domestic product grew at a preliminary annual rate of 1,2 per cent; the Central Bureau of Statistics (CBS) said yesterday. This was down from 2.2 per cent in the same quarter lest year and was unchanged from the fourth quarter of 1997. Despite the data, it is unclear whether the Bank of Israel will further reduce its key lending rate - currently at 11.9 per cent - later this month. M1 rose a sharp 4.7 per-cent in April while the consumer price index. jumped 1.4 per cent, the biggest monthly increase since last. May. The CPI rise, however, was attributed mostly to seasonal factors. Avi Machilis, Jerusalem

MEXICAN ECONOMY

Surge in industrial output

Mexico's industrial output surged a vigorous 15.2 per cent in-March compared with the same month in 1997, suggesting economic growth in the first quarter – to be announced tomorow - was surprisingly strong. The finance ministry acknowledged that part of the unexpected increase was because this year Easter week fell in April, rather than March as it did last year, meaning factories produced three days? more goods. Factoring out the Easter effect, the rise in industrial production would have been 8.9 per cent, still higher than most economists had forecast.

That figure bodes well for first quarter gross domestic prod-

uct data. Economists say strong first quarter growth helped boost tax collection in the quarter by 18.4 per cent. That allowed the government to post a modest 1.7bn budget surplus in the first three months of the year despite falling world oil prices. Henry Tricks, Mexico City

SCOTTISH EQUITABLE POLICYHOLDERS TRUST LIMITED

NOTICE IS HEREEY CIVEN that the fifth ANNUAL CENTRAL MEETING of Qualifying Policyholders of Securith Equinable Policyholders Trust Limited will be hald at the offices of Securith Equinable pic. Scienburgh Parts, Edisburgh Parts on Thursday, 28 May 1998 to 11.30 am for the following purposes:

To reappoles Directors of the Company retiring by rotation at the Maching, nar

Any Qualifying Policybolder who is entitled to astend and wote is entitled to appoint another person who need not be a Qualifying Policybolder) as his pricey to mand and were instead of him. A proxy is entitled to wote but is not entitled to spicial entops to demand or jobs in demanding a poll, Proxy forms, which can be obtained from the Company Secretary (at the following address), must be deposited at Eduburgh Park, Eduburgh Ediburgh Edib

Edinburgh Hill 2 (SE before 11 30 a.m. on 26 May 1996. Every Qualifying Policyholder winner policy, m at the commencement of the bicering, at in force, and has been at least one year in force, is entitled to attend and worr at the

World trade party-goers look for the next big leap forward

World leaders gather in Geneva today to celebrate the international trade system's 50th anniversary. Guy de Jonquières and Frances Williams report on the hopes and fears surrounding global liberalisation

sation's ministerial meeting which opens in Geneva today is more an excuse for a party than an occasion for big decisions. Still, many guests hope to get some useful business done between the speech-

making and carousing. The meeting marks the 50th anniversary of the multilateral trade system. Ren-ato Ruggiero, WTO director general, aims to use it to raise the institution's political profile and win at least a symbolic endorsement by world leaders of the importance of global trade liberal-

After much diplomatic arm-twisting, US President Bill Clinton has agreed to drop in, as has the British prime minister, Tony Blair. President Nelson Mandela of . Cuba and about 10 other

Two priorities seem set to top the agenda. One is to start mapping out the shape

he World Trade Organi- next liberalisation push. Negotiations are due to begin on agriculture next year, and on services in 2000. The question is what other issues should be included. and how they should be ban-

> Sir Leon Brittan, the Europeen Union's trade commissioner, wants the WTO to decide to launch a full-blown trade round before his term expires at the end of next year. He claims support from the EU's 15 members, Japan, Australia and some other big agricultural exporters. The US is more cautious,

partly because of Mr Clinton's failure last year to win fast-track authority has left him without a mandate to conclude new trade agreements. With a view to impressing Congress, the US wants negotiations focused South Africa, Fidel Castro of on areas likely to yield quick

Mr Clinton is unlikely to sav in Geneva when he plans to renew his fast-track request. But he is expected and structure of the WTO's to propose that the WTO's

WTO waters down rallying cry for open trading system than as a policy statement, but Weary trade diplomats agreement was delayed by

yestercizy put the finishing touches to a draft declaration to be issued at the end of the WTO's second ministerial meeting on Wednesday, writes

The declaration was initially intended more as a rallying cry for the open trading system

ministerial meeting next year, which will decide the as an important political gesture of continuing US commitment to multilateralism. Poorer countries bave mixed views on a new trade round. For many, the top pri-

ority is to implement fully the Uruguay Round agreement, and in particular to ensure western governments fulfil pledges to liberalise imports of textiles and other Alejandro de la Peña, Mexico's WTO ambassador.

says Latin American countries favour broader negotiauled. He says such an approach is needed to avoid a widening gap between arguments over improved WTQ transparency and sustainable

The final watered-down draft simply calls on members of the organisation to consider ways of improving transparency in order to build public support

But other developing countries say they have too much on their plates to contemplate comprehensive new talks. Many strongly oppose expanding the WTO's agenda to include such regulatory issues as competition policy and investment, as the EU wants.

The other main discussion topic this week is likely to be a US-led drive to open up the WTO's cloistered operations to public scrutiny and encourage it to communicate and consult with a wide range of private sector

"We want to discuss how best to ensure the institution does not remain mysterious. Secrecy in institutions does nothing but breed suspi-cions," says Charlene Barshefsky, US trade represenfor the multilateral trading

Developing countries suspicious that rich nations also insisted on twinning the objective of economic growth with that of sustainable

development

Other governments are starting to recognise that unless the WTO does more to spread the word about the benefits of free trade, it risks losing the public relations battle to increasingly vocal opponents of liberalisation and globalisation.

A movement called the People's Global Action aims to drive the point home this week. A motley collection of peasants' organisations, stu-dent and squatter groups and far-left trade unions, it plans demonstrations in Geneva to support its claims that globalisation hurts the

However, governments may find it hard to agree a strategy on how to respond to such attacks. Some suspect the US really wants to give a bigger say in the WTO

environmental groups and trade unions, which are influential in Democratic party politics.

Poorer countries claim many of these lobbies are more interested in restricting, than in freeing, trade, by making liberalisation conditional on other countries meeting US environmental and labour stan-

The risk of conflict between global trade rules and environmental policy has been underlined by a recent WTO disputes panel finding against a US law that restricts imports of shrimp caught in nets that can trap turtles.

US environmental groups some of which will be at the WTO meeting, are furious at the ruling. They also accuse Mr Clinton of failing to live up to a promise to get the WTO to agree on how to deal with environmental ques

spoil the celebratory mood in Geneva this week. But they may succeed in grab bing some of the limelight from leaders and ministers.

World Trade Survey, separate

Invitation to shareholders to attend the 125th ordinary General Meeting of Zurich Insurance Company

on Thursday, June 11, 1998 at 9:30 a.m.

(doors open at 8:30 a.m.)

in the Hallenstadion Zurich-Oerlikon, Wallisellenstrasse 45, 8050 Zurich-Oerlikon, Switzerland

Agenda (Short version)

- 1. Approval of the annual report, the annual financial statements and the consolidated financial
- 2. Appropriation of available earnings for 1997

statements for 1997

Annual profit for 1997 Profit carried forward

CHF 906,688,230 CHF 15,359,460 Available earnings for 1997 CHF 922,047,690

The Board of Directors proposes that the available earnings be appropriated as follows:

Distribution of a dividend CHF 562,839,996 of CHIF 9 for the 1997

business year plus a special anniversary dividend of CHF 3 amounting. thereby to a CHF 12 dividend before tex on each of the 46,903,333 dividend paying shares (nominal CHF 10). payable from June 17, 1998, less a deduction of 35% for Swiss withholding tax

CHF 345,000,000

Undistributed profit carried CHF 14,207,694

CHF 922,047,690

If this proposal is approved, after deduction of Swiss withholding tax, dividends of CHF 7.80 ner will be paid from June 17, 1998, free of charges, either by remittance to the bank indicated for deposit of dividends or to the account stipulated for those shareholders with shares in private safekeeping, or upon presentation of a dividend payment order.

3. Release for members of the Board of Directors and other

4. Elections

4.2 Auditors and Group auditors

5. Merger of the Zurich Group with the Financial Services Business of B.A.T Industries p.Lc. (B.A.T-FSB) and the creation of a holding

5.1 Approval of merger according to the terms of the merger agreement

5.2 Creation of a holding structure by means of an exchange of shares

5.3 Revision of the articles of incorporat of Zurich Insurance Company, specifically article 8 (recognition of shareholders), article 15 (votes) and article 18 (resolution and elections): suspensive conditional

5.4 Transformation of Zurich Insurance Company into a bolding company to be named Zurich Allied AG, by means of a total revision of the articles of incorporation and the transfer of all assets and liabilities; suspensive conditional

The complete Agenda is published in the Swiss Commercial Gazette number 94 dated May 18, 1998 and can be ordered from the company.

Business report

The business report with the annual report, the annual financial statements and the consolidated financial statements for 1997, as well as the auditors' and Group auditors' reports will be available together with the working of the proposed condirional revisions to the articles of incorporation for inspection at the company's registered office (Company Cashier's Office, Alfred Eacher-Strasse 50, 8002 Zurich, Switzerland) as of May 18, 1998. Shareholders may request that a copy of the business report be sent to them (contact address: Zurich with the invitation sent to all registered shareholders entered in the share register as shareholders with the right to vote.

Additional information and documentation regarding item 5 of the agenda

ummary information on the proposed merger of the Zurich Group with B.A.T-FSB is given in the separate document "Information for Shareholders" included with the invitation to the General Meeting. More detailed information on the proposed merger is provided in the comprehensive English language brochure Documentation Regarding the Proposed Merger of the Zurich Group with the Financial Services Business of B.A.T industries p.l.c." that can be ordered using the form that is also included with the invitation. Both documents, as well as a copy of the merger spreement including the Governing Agreement, are also available for inspection at the company's registered office (Company Cashier's Office, Alfred Escher-Strasse 50, 8002 Zurich, Switzerland) as of

Invitations, admission cards

Registered shareholders entered in the share register on May 29, 1998 as shareholders with the right to vote will receive, together with the invitation to the General Meeting, a registration and order form than they may use to order admission cards and voting papers from Zurich Insurance Company, Share Register, P.O. Box, 8022 Zurich, Switzerland. By eturning these forms promptly (by no later than June 3, 1998), you will help to ease preparations for the General Meeting. No entries conferring voting rights will be made in the share register in the period from May 30th to the end of the General

Shareholders who dispose of their shares before the General Meeting are no longer entitled to vote. If any of the shares recorded on an admission card are sold before the General Meeting, the relevant admission card should be presented at the information counter for correction before the General Meeting,

In order to determine attendance correctly, any share holder leaving the General Meeting early or temporarily is requested to present the unused

Proxies, authorization

Shareholders with voting rights may arrange to be represented by another shareholder entered in the

Insurance Company, Share Register, P.O. Box, 8022 share register as a shareholder with voting rights esented by authorized signatories, minors and wards by their legal representatives and married shareholders by their spouses, even if these representatives are not shareholders. Alternatively, shareholders may be represented by one of the following:

- Zurich Insurance Company

- A bank or other professional asset manager acting as proxy for deposited shares as specified in article 689d of the Swiss Code of Obligations; ATAG Ernst & Young (Mr. Andreas Keller), P.O. Box, 8022 Zurich, Switzerland, acting as independent proxy as specified in Article 689c of the Swiss Code of Obligations.

Unless expressly instructed otherwise, these represcuratives will exercise their votes in favor of the proposals made by the Board of Directors.

The appropriate proxy authorization should be granted by signing the proxy form on the registra-tion form or admission card, together with any relevant instructions. Proxy authorizations made on the registration form should be sent to Zurich Insurance Company, Share Register, P.O. Box. 8022 Zurich, Switzerland. Proxics made on the admission card should be handed to the appropriare representative (together with voting papers).

Proxy holders of deposited shares are requested to notify the company regarding the number of shates they represent as soon as possible, but no later than June 10, 1998

US cautionary legend

or the solicitation of an offer to buy nor shall there by any rate of any securities of Zurich Insurance Company or Zurich Allied AG in the United States or any other jurisdiction in which such offer, soliciration or sale would be unlawful.

Zurich, May 14, 1998

Zurich Insurance Company on behalf of the Board of Directors

Chairman: Rolf Hüppi



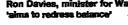
Ministers plan to refocus Welsh funding

Areas of south-east Wales, envied for their success in attracting overseas investment, could lose their assisted area status, which is worth millions of pounds in government subsidies.

The proposal is being considered by the Welsh Office as part of a new economic strategy - to be published next month - to attract more investment to deprived western and rural

It is likely to meet opposition in the targeted areas around Newport and Cardiff but will be popular in other parts of Wales, which have become angry at the growing

economic disparity. Concern has mounted in scheme by computer giant this weekend's Wales Labour recent years with south-east Acer, which the Welsh party conference, Ron





Wales clinching projects such as the £1.7bn (\$2.8bn) LG electronics investment, and, last year, a £30m Cardiff site for \$25m freight terminal combined annual saving for The government will today announce a £15m (\$25m) reil private-sector users will be

£20m after 10 years. Peter Hain, the Welsh Office freight terminal for south Wales expected to take up to 40.000 truck journeys off the road each minister who brokered the deal, yeer, writes Juliette Jowit, said: "It will be an enormous benefit for south Wates and will After years of controversy and be an added magnet for inward delays, Ron Davies, the Welsh secretary, will unveil the site at stors who want to go ntlooge, just east of Cardiff. straight from Wales into

The project will provide direct rail links to Europe for Europe.* The scheme has £10m of public funding from the Welsh Development Agency and Cardiff city council. The terminal Official estimates claim the should open in 1999.

Davies, the Welsh secretary, Development Agency failed said the aim was to try to In an interview with the redress the balance. Financial Times ahead of One plan is to scale down or abolish regional selective

assistance funding from the

Treasury for already suc-cessful areas along the M4 motorway to Swansea, encouraging companies wanting subsidies to move to west or mid-Wales.

There is also the possibility of bargaining - an agree-ment to downgrade areas of south-east Wales would ensure that west and mid-Wales secured Objective 1 status for European Union funding of up to 75 per cent

"As long as they [companies] know areas around Newport and Cardiff are on the assisted area map, they know if they opt for that part of Wales it will get them RSA," he said.

To prevent companies going elsewhere in the UK or Europe, money saved in south-east Wales could be spent offering greater subsi- cle" of existing investors.

dies in west and mid-Wales, or invested in communications and infrastructure.
"If there are, as there are

at the moment, mobile inward investment projects. we have to do what we can to attract them." Mr Davies said. "But what I think will happen in future is Wales will be more critical in an ent of them by location and very serious questions will be asked about a future Acer project in the

Eluned Morgan, Labour member of the European Parliament for Mid and West Wales, said such action was needed to tackle an "economy on its knees" - where gross domestic product was less than 75 per cent of the EU average - while still pro-tecting the "economic mira-

NEWS DIGEST

BROADCASTING

Magazines to move to television format

talevision with the launch this year of a channel dedicated to

Four of the most prominers publishers of titles ranging from Loaded, a man's steatyle magazine, to The Bearto, a childran's comic, will tomorrow announce plans for the Manazine Chargiel, it will be the first time a channel has been dedicated to programming based on magazines.

IPC Magazines, the UK's biggest consumer magazine publisher, which owns popular titles such as Loaded and Marie Claire, has joined forces with DC Thomson, publisher of The-Beancy Haymerlest Publishing, the company co-founded by Michael Heseltine; and British European Associated Publish ers, owner of The Puzzler.

It will broadcast on digital television for about six hours a day, rising eventually to 24 hours. Headwater Cross-Media. the consultancy developing the channel, is talking to British Digital Broadcasting, the pay-TV company owned by Carton Communications and Granade Group, about the Megazine Channel becoming part of BDB's digital terrestrial service. which leunches in the autumn, and negotiating with United News & Media, which has a stake in S4C Digital Networks, digital terrestrial TV company. Cathy Ne

Siemens takes to road to urge euro readiness

Siemens, the German land; Manchester, north-west industrial group, is stepping up its efforts to alert UK customers and suppliers to the implications of the euro.

paigner on the issue. Sie-

GOLD FIELDS

OF SOUTH AFRICA LIMITED

Gold Fields of South Africa Limited

("GFSA")

GOLD FIELDS

Gold Fields Limited

("Gold Fields")

ted in the Republic of South Africa)

England; and in London.

nies must prepare for dealing in euros, Siemens' UK Already a strong cam- subsidiary has taken pains to avoid any hint of compul-

We will not use any pres- over in pounds. While arguing that compa- sure on our customers or

> foolish." He added: "We will have

to deal in euros would be at

decisions. Citing Siemens £1bn investment in a semiconductor plant in north Tyneside, north-east England, he said: "We are still happy with the decision we made, but the strong pound is definitely a burden

ECONOMIC GROWTH

Poli sees further slowdown

A new poll of business polls predicts that economic growth will continue slowing, hitting an annualised rate of 1.9 per-cent in the lest quarter of this year. The monthly BDO business trends report, launched today, covers 11,000 respondents and 5m employees, by bringing together the results of the main UK business surveys. The report is compiled by BOO Stoy Hayward, business advisers, with the Centre for

UK COMPANIES

Profitability ends 3-year rise

Return on cepital by UK companies is falling after three year of almost constant growth, says a survey today by Experien, the business information company. The decline preseges job losses this year. Return on capital — or profitability — fell from 9.7 per cent to 9.5 per cent after inflation in the last quarter of 1997, and may have fallen further, says the survey based on financial results of the UK's 1,000 largest companies. The sharpest declines were in electronics and engineering, both vulnerable to the pound's strength, Simon Kuper, London

HEALTHCARE

insurer launches new scheme

Norwich Union Healthcare, Britain's third biggest health insurer, is launching Britain's first insurance product to cover services provided by family doctors. The scheme will be backed by a 24-hour, year-round helpline, with home visits evallable at a price. The package - which follows other, so far largely unsuccessful, attempts to move primary care into the private sector - Involves a tie-up with Medicentres, the small but fast-growing chain of drop-in doctor services run by Sinclair Montrose, in which Norwich Union has a 5 per cent stake, Nicholas Timmins, London () to place to the sign;

BA says sorry to Branson

British Airways has apologised to Richard Branson, chairman of Virgin Atlantic, for accusing him last week of hypocrisy. It has also recalled and destroyed all copies of its weekly staff newspaper, BA News, which repeated the allegation:

The apology followed press reports over an 18-month Europeen Commission investigation into BA's relations with travel agents. Last yeer, Brussels threatened to fine BA over its sales techniques. Sir Colin Marshall, BA's chairman told Mr Branson he regretted BA has used the word "hypocrisy" in a press release. Michael Skapinker, London

FRITTE IN

TELEVISION

Strike threat at BBC

The BBC is being threatened with two 24-hour strikes which could disrupt coverage of important sporting events, the National Lottery and other popular programmes. The biggest union in the BBC, Bectu, which represents cameramen, sound engineers and lighting technicians, yesterday said strike would take place on June 4 and 9 over proposed changes in working practices and the structure of the corporation.

In a ballot, 69 per cent supported strike action against multi-skilling and salary management proposals. In a separate vote, 78 per cent voted against setting up Resources Ltd, a subsidiary, to handle some existing BBC operations such as outside broadcasting. Jimmy Burns, London

LORD CUDLIPP

Former Fleet Street editor dies

Lord Cudlipp of Aldingbourne died yesterday aged 84, his family announced. He died at his home in Chichester, West Sussex, after being ill for some time with lung cancer. He became Fleet Street's youngest editor at 24 when he was appointed editor of the Sunday Pictorial, later renamed the Sunday Mirror.

Former Dally Mirror editor Richard Stott -- now a columnist with the News of the World - said: "Hugh Cudlipp was one of the greatest tabloid journalists there ever was. He was the architect of the Mirror of the 40s and 50s, and the man who made the Mirror, together with Cecil King. They made a

sade on the road, hosting (\$1.92bn) last year with next years in sterling. We that we get from our custom-seminars in Glasgow, Scot- 12,000 UK suppliers. Bernd have to pay our employees ers", Mr Euler said.

euros. That would be

to take goods by road to

to lure west of Cardiff.

Birmingham or London.

Euler, finance director, said: in pounds, so we need turn-Moreover, in spite of Ste-

suppliers to deal with us in mens' desire to balance its euro receipts with euro spending, smaller suppliers would "not be the first tarsion. Siemens spent DM3.5bn significant business over the get to get rid of the euros

But suppliers not willing

a competitive disadvantage and likely to be obliged to bear foreign exchange risk or sweeten their terms with lower prices. Mr Euler also pointed out that the euro to us."

Arms-to-Africa row

Anglo American Corporation of South Africa Limited exporated in the Republic of South Africa) ("Anglo American")



Anglogold Limited ("Anglogold")

Together "the parties" and

Driefontein Consolidated Limited

("Driefontein")

Cautionary announcement concerning proposed Driefontein joint venture

The parties have concluded that it would be in the best 4. Given a 100% buy-out of the Driefontein minorities, interests of their shareholders to establish a joint venture in regard to their respective holdings in Driefontein. For this purpose, they have in good faith formulated certain principles of intent, the key points of which are as follows:

- 1. Driefontein will be managed as an independent operation by Gold Fields and Anglogold to derive optimum value for shareholders from the exploitation of the Driefontein Mining Authorisation Area. It is intended that the interests of Gold Fields and Anglogold in Driefontein shall ultimately be in the
- ratio of 3:2, respectively. 2. An agreement will be concluded between Gold Fields and Anglogold governing the conduct of the business of Driefontein. Major business decisions, including the appointment of the Chief Executive and the approval of the annual business plan, will require unanimity between Gold Fields and Anglogold. Dispute resolution procedures will be put in place where unanimity cannot be reached.
- 3. It is intended that the agreement will further provide that an offer will be made to the minority shareholders of Driefontein on terms considered to be fair and reasonable by independent financial advisers. It is proposed that the offer will be made jointly by Gold Fields and Anglo American using, inter alia, Gold Fields shares received by Anglo American from the GFSA unbundling referred to in 5 below. Following the offer, the Driefontein shares so acquired by Anglo American will be exchanged for new Anglogold shares on terms considered to be fair and reasonable by independent financial advisers.
- the service agreement currently in place between Driefontein and Gold Fields will be cancelled for cash. 5. Anglo American and companies associated with it will
- support unbundling of the Gold Fields shares currently held by GFSA (and, in principle, any other assets the GFSA board deem appropriate) to GFSA's shareholders. GFSA will undertake to effect such an unbundling, subject to:
- the bid to buy-out the Driefontein minorities resulting in at least a 50% acceptance (or such lesser percentage as the GFSA board deems
- satisfactory due diligence; and appropriate regulatory and shareholder approvals.
- 6. The parties are also investigating the further possibility of exchanging mining assets, with cash adjustments if appropriate.

in order to condude the detailed terms, conditions and timing of the above proposals, independent financial advisers will be appointed. Shareholders will be informed of further details when appropriate. These proposals will be subject to board approval.

Shareholders are advised to exercise caution in dealing in their shares. A further announcement will be made in

Johannesburg

Sponsoring broker to GFSA and Driefontein

Standard Equities

Standard Equities (Pty) Limited

Legal adviser to GFSA

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PERSON STORY DESIGNATION OF THE SECTION

集SBC Warburg Dillon Read

shows importance of being well-read Ministers will now be

under greater pressure to absorb and inwardly digest their briefs, says David Buchan

from the "arms-to-Africa" affair, it is that Foreign lot more paper to read in the

During the furore about Sierra Leone, UK diplomats have seen how even the lofti- ing these conversations est of their number can slip up on the issue of briefing ing away in return, and

been rather savouring the entry of its top official, Sir their chief. John Kerr, into the affair. Having suffered press and ministerial criticism, the diplomats relished the idea of Sir John galloping to their rescue on Thursday before the House of Commons

foreign affairs committee. And battle on their behalf he did. Indeed, he overdid it - appearing to suggest that Tony Lloyd, junior minister responsible for Africa, had been told more by officials than he had disclosed to the House of Commons in March. Just hours later Sir John

rushed out a statement, saving that a re-reading of the briefing paper given to Mr Lloyd before a March 12 debate on Sterra Leone contained a reference to Sandline International, the UK military consultancy at the heart of the row about Britain's role in the restoration of President Ahmed Kabbah; but that there was no mention of the possibility that the company had broken United Nations sanc-

customs investigation.
The extraordinary sensitivity to Mr Lloyd of Sir John's initial inference was clear from a matching statement from the minister. He said that back in March he had not been "briefed, told, advised or in any other way informed orally or in writing" of the sanctions busting ction or investigation.

Quite what Mr Lloyd

meant by "any other way" was not clear. But his state-

nent has reinforced the

tions or was the target of a

that they must not only put more on paper to their current masters, but also check that ministers absorb and inwardly digest their briefs. Such a regime is in contrast to the picture painted

If there is one certain result by Sir John of devolved responsibility inside the Foreign Office. He had been con-Office ministers will have a tent with the way the Africa desk had dealt with Sandline: taking the company's phone calls for any light British intervention in these might shed on the situation in Sierra Leone, keep "one-sided" and giving noth-The Foreign Office had tions-busting on to customs - all this without telling

"I don't feel officials were in any way at fault in not telling me" of these, Sir John said.

He was finally told in early April, when it emerged that Sandline's defence would be to claim Foreign Office complicity. Even then: "I was not hugely concerned because I was confident that these guys who work in the Foreign Office would have got it right." He passed the news to Mr

Lloyd, but "did not feel it right to bother" Robin Cook, the foreign secretary, "who is supposed to be laying out strategy", especially during the busy time of Britain's six month presidency of the European Union. This devolution of responsibility has suited not only Sir John's desire to get more

involved in policy than his predecessor, but also Mr Cook. He made clear his wish to focus on a few big issues and to keep the minor ones out of his boxes of briefing documents - an example that appears to have been followed by junior ministers. To the old guard, including one of Mr Cook's minis-

terial predecessors, Lord (Douglas) Hurd, this smacks of laziness. To others it has been a welcome change from micro-management. Mr Cook will now have to change his style and end up reading far more dispatches

than if he had never made a

fuss about not being briefed superb partnership."

Coalfield rescue plan attacked By Andrew Tayler, Utilities Correspon

The UK government should force generators to sell unwanted coal-fired power stations rather than pursue a coalfields rescue scheme that would increase customers' electricity bills, ministers were warned today.

An open letter from consumer groups to Geoffrey Robinson, a Treasury minister, published today in the be carried out. The findings London edition of the Financial Times, says helping coal communities should be

be paid for by taxation the deep-mine coal industry

charges. The Electricity Con-Energy Intensive Users Group and the Utility Buyers Forum are concerned the government will seek to protect coal markets by continuing its moratorium on build-ing gas-fired power stations.

The moratorium was imposed last year to allow the government's review of power station fuel policy to are due to be announced by the end of next month. An extension to the ban is regarded as social policy and part of a deal to safeguard

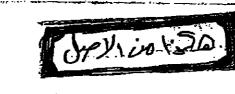
rather than electricity canvassed by Mr Robinson. He wants to spare the UK's sumer Committees, the remaining mining areas the economic deprivation caused by closures since 1985.

However, there is opposition to the plan within government, and those close to the review stress that is only one of a number of options being considered. "Extend-ing the moratorium would be a very blunt instrument." the government.

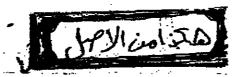
Customer groups say an extension of the moratorium would restrict competition. They complain that the three large coal burning gen-

erators, National Power. PowerGen and Eastern Electricity, have used their market power to manipulate wholesale electricity prices. They add that generators would rather mothball or close a coal-fired plant than sell it to a competitor. The letter to Mr Robinson

says: "At the very least they should sell mothballed plants or allow tolling [a form of leasing] giving greater coal burn. The current market encourages generators to shut coal plants as it pushes up prices."







INSIDE TRACK

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Street editor &



Prepare to survive in brave new workplace

Lucy Keliaway on the post-job era where at the envelope for further clues and discovered that you must "leverage your uniqueness" and develop a passion for learning

Are you a chameleon-like day-to-day value adder? Do day-to-day value adder? Do train more than they used to. But all this is marginal. learning lab? You don't? It seems you are not ready for the workplace of the future. I have been reading Work This Way, the new book by Bruce Tulgan, the US's youngest management guro. He has chosen to add his own chameleon-like value through the study of Generation X. In this volume he tells us all we need to

know about how to survive in the brave new world. The first step is to "leverage your uniqueness", step two is to "globalise yourself". You must also develop a passion for learning and learn what you love. (If you don't know what you love to learn, you can keep a diary of your 'spontaneous learning' which will help you find out, he advises.) This would be thoroughly

depressing were it not for the fact that this future is based on a shaky premise. "It's all over," Mr Tulgan writes on the back cover of the book. "All of it. Not just job security. Jobs are all over. We have entered the post-jobs era and there is no turning back."

This is tosh. Jobs are not over. Neither is job security. The latest surveys in the UK show that typical managers are in their 40s and have been in the same job for about a decade. That doesn't sound very post-job to me. Most young high flyers say that they might change employers, but most of them

stav but. And what do employers voracious learners or uniqueness? According to a sounced season state of the season survey conducted by Caliper, consultancy, what they want is good, old fashioned, conscientiousness.

What has changed are people's perceptions. If enough people like Mr Tulgan go on about how much things have changed, people start to believe it. There has been some change at the edges. People do switch jobs a little more often, a few lucky people can work flexible hours, people The truth is that the present

at odds with it that last

chief executive of Body

week she stepped down as

clear what she thought of

the young people Body Shop

averse, legalistic, ambitious,

not very imaginative, and

by the book.

always trying to do things:

Lucy, Try this, it works! –

article about how to improve

your public speaking. Who was S? And why were they

sending it to me? I cast my

occasion I had spoken to a

group - was there someone

moved to offer help? But it

well, or else they would not

sign themselves S. I-looked

in the audience who felt

must be someone I knew

mind back to the last

S." The message was on a

Post-It note stuck to an

and realised the whole thing was a set-up. Colleagues is pretty much like the past, report that they, too, have and the future will be much received advertisements in like the present. the guise of cuttings sent by friends, and each of them has been taken in - for a while. What a clever idea. If ever there was someone you might think, at least it who has globalised herself made us look at the thing. and leveraged her On second thoughts, maybe not. No one likes being uniqueness it is Anita Roddick. But far from being in tune with the workplace duped; it is not a good basis for closing a sale. of the future, she is so much

Shop. When I had lunch with her last summer she made chairman and chief executive of Coca-Cola, is a prototype boss for the 21st century. That is the view of Fortune magazine which described how he spent his first 24 hours on a visit to Shanghai. He woke up at dawn to open a bottling plant, had back-to-back meetings, hosted a dinner and passed half the night combing the city looking for vendors of his fizzy beverage. Were I a Coca-Cola shareholder I would have mixed feelings. Does it show that he is driven, obsessed with the brand and determined to make it more successful? Or does it show that he is heading straight for burn-out, unable to delegate or set priorities There is a lot to be said for

bosses who know the value

of a little beauty sleep.

Doug Ivester, the new

the person didn't know me

at all - they had spelt my

And then I saw that the

article was an advertisement

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If you have gobbledegook and want to further the cause of piele English, estates compe second year, by the Financial Times and the Management Consultancies Jesociation.

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and a collection of the hest examples will be published in the Planychit Times to he

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PROFILE STAN SHIH, ACER CHAIRMAN

The high priest of Taiwanese high-tech

Laura Tyson on a visionary who eschews the trappings of wealth and power

In his native Taiwan, manufacturer Acer, is cult status. A self-made man, he has inspired a generation of high-tech entrepreneurs. His company is the crown jewel of the government's Made-in-Taiwan campaign to promote the island's industry. So highly is he esteemed that Lee Teng-hui, the president, once considered inviting him to become premier.

But some of his peers in the business community have their reservations. He is perceived by many as a latter-day Don Quixote: bril-liant but possessed by impossible dreams, tilting hap marketing failures. That cost lessly at the windmills of international commerce.

Mr Shih has devoted much gle-minded quest of building his company into a top international brand name and, by extension, reversing the negative image of Taiwanese products in the global marketplace.

"We believe that intellecincludes creating a brand name, is the future of Taiwan's competitiveness," he says. "That is the reason Acer has this vision and commits much more resources than other Taiwanese companies to this

venture capital to establish

The centrepiece of the struction in northern Taiwan, Mr Shih describes it as a "mini-Silicon Valley", which he hopes will one day produce the "Bill Gates of

"We are world-class in many areas, especially in high-tech manufacturing," be says. "But to cultivate a software culture with the necessary creativity, innovato start now, because Taiwan's competitive edge can only last 10 more years." As part of the drive to cre-

ate a brand name in software as well as hardware. Acer recently set up an online ticketing joint venture with Hong Kong-based

language films. The company is spending US\$10m to sponsor the Asian Games and is providing computer

Mr Shih's vision has Stan Shih, the chair today, though it has often man of computer been a rough ride. After the mean't going bankrupt in the brought Acer to where it is nearly going bankrupt in the revered by many as a vision- early 1990s, Acer now ranks ary. His popularity verges on number three in total PC sales, but much of its business is supplying PCs under contract to western brands. Its own brand is only the eighth biggest in the world; and its goal of reaching the top five appears more distant than ever, notwithstanding an announcement that Acer will take over Sie mens' PC manufacturing plant in Germany.

make a splash in the crucial US market with the sleek Acer Aspire PC flopped disastrously, due largely to the company \$120m in 1996 and 1997. The troubles at Acer America, coupled with of his career to the sin- losses at its memory chip joint venture with Texas Instruments, led to overall losses of \$141m last year loss on record.

Mr Shih is philosophical. In his book Me-Too is Not My Style, he details the tual property, which many setbacks Acer has encountered - and the lesfounded in 1976. "I would not contract business. be surprised if I am the CEO in Taiwan who has paid the those lessons," he writes.

top-quality PCs and compo-100-plus software companies nents efficiently and at a wants to invest in building a Aspire Park, now under con- at SBC Warburg. "It is wanese company to become tions.

a widely accepted brand in the US market." Acer counters that its

it will be competing with its own clients. They might sever ties, depriving Acer of the economies of scale it sons learned - since it was derives from its flourishing

buys clothes on discount.

by 2010. By the same year he competitive price under conexecutive suite at Acer, nor growth. aims to have a third of tract. "At some point Stan any expensive paintings on Acer's profits and a sixth of has to make a decision the wall. Employees call him its revenues derived from [about] how much more he by his first name. His spartan office is only a few feet brand name," says Liu Chi- away from a floor full of plan is Acer's 425-acre tung, an electronics analyst staff. His door is usually open and employees are welextremely difficult for a Tai- come to enter and ask ques-

His management style would not stand out on the west coast of America, but in

revolutionary.

Mr Shih is just as sin-fundamentally good. He Mr Shih is a wellspring of gle-minded in his personal trusts subordinates, listens folksy aphorisms, managehighest tuition in learning life. He collects neither wine carefully, and delegates. ment theories, motivational nor wives, eschewing Because he does not impose slogans and business psycho-Critics say Mr Shih should Taiwan's customary trapdecisions, some complain babble. Acer's manufacturabandon the brand-name pings of wealth and power. that he is indecisive, But he ing operations are based on Mr Shih plans to help fuel drive and focus on what He lives with his mother, his believes that letting people the the revolution by offering Acer does best - producing wife and three children, and make their own mistakes - model" patterned after

an employee share owner-

ship programme.

brand strategy helps attract Taiwan, where employees says in Me-Too is Not My Taiwan's biggest corporate contract orders. But the are often made to wear com- Style: "My better half is so catch is that, if Acer does pany uniforms and even interestingly boring." She break into the top five, then senior managers are says her husband takes very required to punch into time- seriously the conferences clocks, it is nothing short of others regard as merely At the core of Mr Shih's ever poring over large stacks

business philosophy is the of documents when in his belief that human nature is car or on the plane. and take responsibility for There is no wood-panelled them - is good for personal

management model as "col- the "Acer 1-2-3" theory, corlective entrepreneurship". porate resources will first be He says: "I do not like my allocated to taking care of colleagues to be yes men. neither do I like the idea of being treated as a boss." Acer was among the first disenchantment with the companies in Taiwan with shares' performance.) an employee share owner- Mr Shih advocates

social gatherings. He is for-

0000

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Mr Shih is a wellspring of "fast-food business McDonald's. According to "Stan's smiling curve", speed is the main competi-Mr Shih describes his tive edge, not cost. Under customers, then employees, and finally shareholders. (That may help explain their

"playing with an open deck" Even his wife, Carolyn, in staff relations. About his company, of which he and his family admit to owning 3.26 per cent, he says: "I would rather lose control and make money than be in control and lose money." Other favourite axioms include "Go big or go home" Favourite food: Chinese noodles, in deference and "Where's the beef?".

From go, the oriental game of which Mr Shih is a devotee, he has adapted the strategy of "surrounding the city from the countryside". The moral is to establish a strong foothold in smaller markets before tackling bigger ones. In spite of the setbacks, that

THE ESSENTIAL GUIDE TO STAN SHIH electronic watch pen. He founded the

Born: December 18, 1944.

Early career: His father died when Stan Shih was three. He was raised by his mother who tion and marketing skills ran a small grocery store. He says she is the takes much longer. We have greatest influence in his life. From her, he learned his first business model. "Stationery offered higher margin but lower turnover, while duck eggs, though silm in margin, turned over cash every day. I made more money selling eggs than stationery," he says.

in contrast to many of his peers in Taiwan's high-technology industry. Mr Shih did not study or work abroad. He was hired from university as a research and development Golden Harvest, the world's engineer. One of his earliest inventions was the

to his mother, who is a devout Buddhist and a vegetarian, he eats little meat.

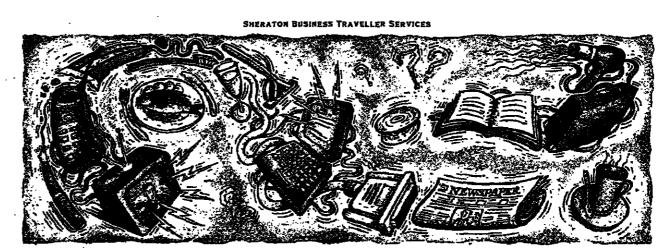
Hobbies: Apart from an occasional game of go, Mr Shih's chief hobby is work. Although trim, he recently took up golf and walking.

Mr Shih says there is a "poor young men's culture" at Acer. Early on he emphasised the "shortcomings of being rich" but concedes in his book that Acer nearly felt victim to those evils after flotation in 1988.

forerunner of Acer with \$25,000 (£15,000)

collected from his wife Carolyn Yeh and other

remains Mr Shih's dream.



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* Clearest based on 1997 customer preference study.

Fear goes with the territory

Business schools in the former colony soon find out if they pass muster, writes Louise Lucas

🐧 International operating in Hong Kong are this month anxiously awaiting the results of one of the biggest tests they have ever faced.

Failure could mean they have to oull down the shutters on what has traditionally been one of the most lucrative markets for distance learning courses; a pass could be conditional on heavy investment.

The test is accreditation. The Hong Kong government, forced into action by a spate of chariatan courses which were expensive but poor quality, decided to clean up the territory's image by forcing all courses to register.

Organisers of some 240 courses offered in Hong Kong duly submitted their applications, and on May 23 will learn whether or not they may continue in busi-

Quibbles against the rationale are almost minimal. Hong Kong is a fertile breeding ground for cowboy operators: education is highly valued, and courses which do not require career breaks are in big demand.

Nor do the academic criteria – essentially, showing that the course matches the home country course and that learning materials are comprehensive - raise any hackles.

Indeed, Joseph DiStefano, executive director of the newly opened Richard Ivey School of Business programmes in Hong Kong,

ensure would-be students are not ripped off, Hong Kong has "over-corrected the tiller," says Rod Pryde. director of the English Language Centre at the British Council.

Henceforth, rooms used for teaching or exams must comply with the stringent fire safety standards required for schools: which means the distance from the classroom to the front door and the widths of the corridors are all under scrutiny.

Most galling of all for course organisers is the stipulation that premises must be on floors lower than 24m. In densely packed Hong Kong, where the vast majority of the population live and work above this level in 40 and 70 storey blocks, the rule is seen as excessive.

There is a let-out: courses without the means or willingness to go through the process can exempt themselves by linking up with one of the 11 local universities and colleges to offer joint programmes, Some 100 courses have sought this option.

Mr Pryde welcomes the choice, saying it will give courses more IT support and furnish local institutions with a more international outlook. Everyone wins in this situation, he says except possibly agents.

Christine Jensen, programme director at Henley Management College, is less convinced. "There's a second agenda here, which is to give a little more credibility to the 11 institutions. A lot of schools will be linking, because then registration is

But, like many of her peers, she sees less in it for the students themselves. Hong Kong MBA students are typically in their mid-30s, working full time. Their requirements are flexibility However, in its zeal to and convenience: many of



incur additional expens

three years is interpreted as

two courses, with registra-

further HK\$16,600, although

it is envisaged that after the

process settles down these

courses," says Mr Pryde.

added to the chase to snap

up the few suitable premises,

pose a double whammy.

"Ultimately, who will pay for

Privately, operators say,

registration and premises?

the government concedes

Annual checks will cost a

tion fees of HK\$66,400.

tering courses.

The students.

the local institutions are in far-flung parts of the territory, and hours are strictly regimented within the working day.

Ms Jensen says: "The people we deal with come Saturdays and evenings: they need service now. quickly, and are not willing to wait in line."

Thus the Henley Management College courses are among the 240 scrambling to

stringent regulations, and was told by the Fire Services meet stringent fire and Department that to issue a

When students meet for

workshops or exams - a

they have free use of an

office. Unfortunately this

will no longer be possible:

the door is marginally too

The government arm

responsible for accreditation,

the Non-Local Courses Reg-

istry, says it too queried the

far away from the fire exit.

maximum 16 times a year -

Students have free use of an office. Unfortunately this will no longer be possible: the door is marginally too far away from the fire exit

area giving the biggest head-

"Why does a person sitting an exam or learning have to be safer than a person who works there all day every day?" splutters Elaine Healy, Hong Kong representative of the Institute of Chartered Accountants of Australia.

Ms Healy, who represents some 40 courses, shares premises with one of the big accountancy firms in one of the smarter office blocks in Central, the prime business

safety requirements - the fire safety certificate it had to be "100 per cent sure" there were no risks to safety. An exasperated Ms Healey

has been trying to find alternative space, but few landlords are interested in such a sporadic tenant. She thought she might strike lucky with Hong Kong's recently expanded Convention and Exhibition Centre, which sits on the harbour and which played host to last year's handover ceremonies.

But she was failed again: the building, she says, was not deemed safe. She has

July 1996. Subsidiary legislabeen told her only option is tion was put in place one to rent out a room at the year later, just before China YMCA. There is no accountancy library there and the resumed sovereignity.

whole atmosphere is less "The way it's being han dled it's an absolutely professional. Yet it will exhausting mental process There are other costs. The says Ms Jensen. Ms Healy adds: "We had the change of Non-Local Courses Registry sovereignity so it was is charging HK\$33,200 (£2,635) per course, and rushed through very fast without a lot of thought defining a course as any different entry or exit point. given to it. Now we are paying for that." Thus an MBA course that can be completed in two or

The full extent of the price exacted has yet to be revealed, but students are likely to be among the casualties. Courses rejected by the accreditation board must cease operations, although they may appeal. "Some people might be

will only need to be carried out on a sporadic basis. The halfway through a degree fees, say the government, which is then discredited and these people will have no comeback," says Ms cover its own costs of regis-Healy. "You are trying to The charges are enough protect these people, but in to stop unscrupulous weekby-week designed courses, reality, you are going to destroy their lives and they but it would also deter small volume high quality will lose a lot of money for the parts of their degrees they have already sat." He says that the costs,

This is acknowledged by the government. "Whether the student could claim compensation from the operator all depends on their contractnal terms. But fif not accredited] the course has to be stopped," says Fanny there are problems with the Lam, senior education offilaw, which was enacted in

NEWS FROM CAMPUS

Virtually ready to start work at Wharton-

Students joining Wharton's MBA programme this autumn are already getting into the swing of things and contacting fellow students: wer the internet. ertalkrijs a web site

developed to introduce hew students to Wharton, What has proved sumprising, savs Gerry McCartney, the school's chief information officer, is now the prospective students ere using the web site. As well as asking the run-of-the-mill questions, the students have formed an

electronic community, Mapping ideas on accommodation and arranging ace-to-face meetings. Mr McCartney believes this will help students hit the ground running when they start the MBA in the autumn.

About 500 prospective MBAs have already logged on to the system. Wherton: www.wharton.ubenn.edu

Getting the Genry look

ater this week the Weatherhead School of Management at Case We Reserve University in Cleveland, Ohio, will announce a \$40m expansion plan. The centrepiece will be a suliding designed by architect Frank Gehry, who designed the Guggerhelm Museum In Bilbao, Soain. Case: www.cwru.edu

Manchester scholarships

Ambitious women managers who want to study for an MBA can apply for a £16,000 acholarship to study et Manchester Business School Two acholerships are lable, one on the full-time and the other on the part-time programme. The scholarships

are sponsored by the Guardian newspaper and applications close this month Contact: Helen Dowd, UK, (0)161 275 6311 🔩

Stem reserves

Voicker services

Former chairman of the US Federal Reserve System, Paul Volcker, has been appoin as visiting professor at the Stern school at New York. University. The profe has been made possible through a donation from Henry Kaufman, president of Henry Kaufman & Compa and a doctoral graduatia from NYU in 1958. Stern: www.stern.nyu.adu.

Entrepreneurs* cash in

The MIT Entrepreneurship Competition traditionally attracts high calibre entrie not least because of its first prize of \$50,000 (£30,000). This year the competition w so stiff that the university declared two winners. An anonymous donation of an additional \$20,000 meant that both the winners -**Volunteer Community**

Connection, which matches volunteers and nonprofit organisations, and Direct Hit, a software provider - rece \$30,000 each. Direct Hit already has venture capital funding of \$1.3m. MIT web.mit.edu/50k/www

 Meanwhile, a team from the University of Georgia's Terry College of Busine won the international entrepreneurship competitio at the University of Austin, Texas. The winning team, which best peers from 23 other business schools, including Babson and Kellogg took home a first prize of

\$15,000. The team put together a business plan to manufacture and market a vaccine developed by a Georgia veterinary protessor to sterili female dogs without surgery Terry: www.cba.uga.edu

ion for News from Compos should be sent to Della Brade The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 673 3950



Savings on **SAS frequent** flight card

Business travellers taking frequent flights from London to Scandinavia can buy tickets for 10, 20 or an unlimited number of single flights stored on a card that can be used at automatic check-in machines. SAS, which has been selling the cards in Sweden, Norway and Denmark for two years, is making them available through UK travel agents. SAS says the cards offer significant savings; the card price of 20 single flights to or from Oslo is £750 less than the combined cost of 20 economy tickets bought separately.

Praise indeed

Trans World Airlines and America West have emerged as best US long-haul and short-haul airlines respectively in a survey for Frequent Flyer magazine. Both won praise from regular travellers for punctuality, convenient schedules, smooth check-in procedures and food service America West was also rated above average on flights of more than 500 miles, as were Continental, United and American Alrines, Passengers sald getting away on time remained their top priority. Scheduling, ease of check-in and seat comfort were also crucial but food was rated less important.

Arrive in style

Air Canada passengers arriving at London Heathrow have suits pressed while they shower. The airline has opened its first arrivals lounge in the almort's Terminal Three for passengers travelling in Business First Class and top tier members of its Aeroplan trequent fiver programme. The lounge has 11 showers and a small business area with fax nachine, printer and five work stations, each with a telephone and laptop connection. Air Canada plans this year to open a similar lounge in Vancouver and at its home base in Toronto.

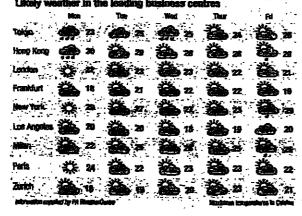
Ladies at lunch Women travellers shuddering

at the prospect of doing business in France during the World Cup may find relief in an offer from Relais & Chateaux hotels, If four women make a reservation to dine at any of 100 French hotels and restaurants between June 10 and July 12, only three will pay. The restaurants include Au Crocodile in Strasbourg. Troisgros in Roanne and the Restaurant Michel Rostang in Paris. The deal covers only food, not wine.

East side story

Toronto-based Four Seasons hotel plans to open a 140-room, five star hotel at Canary Wharf, in Docklands, east London. The group has been encouraged by the lack of top hotel accommodation in an area of rapid business growth, by the extension of the Jubilee Underground line to the area and the presence of nearby London City Airport.

Roger Bray



uk business travel by train to scotland

ouble-headed contest for travellers

Tom Lynch on the companies competing in the race across the border

aeroplane for most business trips under a couple of hundred miles, given the time spent checking in, trailing in and out of airports and waiting for baggage. On longer trips, like London to Edinburgh, the contest is more equal, though the chance to spend time reading or working gives the train the edge for centre-to-centre

For longer journeys, trains have to try that bit harder. London to Glasgow is one of the few trunk routes on which two rail companies are competing for business. Great North Eastern Railways goes north from London via York to Edinburgh, then takes a curious dip south and back up to Glasgow.

TO HEATHROW AIRPORT

then north via Stafford, Wigan and seats with lots of fawn elsewhere, Cariisie. GNER started this particular

contest with an advantage: east coast track and trains were modernised in the last decade, while Virgin took over much older rolling stock, running on elderly track and wiring. Richard Branson put his Virgin brand on the trains, which was a

bold move: the service is only as good as the track it runs on, so it has taken a bit of a pasting as it has turned in some poor figures for punctuality. GNER's first-class coaches are

modern, comfortable and furnished in a variety of shades of grey. My Virgin service from Glasgow

The train beats the Virgin Trains heads north-west favoured rosy chevron-patterned though the company is about a third of the way through a refit and new trains will be along in a

the companies offer at-seat service from the buffet and full meals in the dining car, as well as The Daily

The level of service is similar: Telegraph. Both also offer various

west coast line in the Midlands and north of England, it is perhaps just jokes. as well Virgin's people are not roaming the aisles with pots of hot liquid.

The rocky ride on the west

don Underground connections.

free tea and coffee, while Virgin

charges £1.50 a time. But given the

executive packages, incorporating where track improvements are meal vouchers, sleepers and Lon-promised - also makes a virtue of the modern fashion of serving food GNER does provide unlimited in vast soup bowls. The standard of catering in both trains shows some improvement on the old British sometimes violent lurches on the Rail, which in any case did not always live down to the music hall

> Both King's Cross (used by GNER) and Euston (used by Virgin) have lounges for first-class engers. Glasgow Central does not, though there is a coffee bar on the other side of the station from the London platforms and a bar and restaurant upstairs where the

departure boards used to be. Buy your newspaper before you get to Glasgow Central, though; the kiosk beside the platforms has closed and the paper shop is

RAIL INFRASTRUCTURE

Cheap fares go down the Tube

become an unexpected pleasure. Fast Train, the forerunner of the Heathrow Express which is due to start next month, has been taking about 4,500 passengers a day between Paddington station and the sirport in quiet splendour since January. And it has been excellent value for money at £5 one-way.

Por a bruised veteran of the London Tube, it is a delightful experience, worlds away from the busy, jolting nightmare that is the Picca dilly Line. A few relaxed passen-gers join the plush new train at Paddington, waved in to the car-riages by smiling staff in natty uniforms. Inside, there is room for baggage and piped music plays softly in the background. A video features gambolling dolphins and polar bears frolicking on the ice to soothe you before checking in.

Travelling between central ticket inspector relieved me of £5. money away and spend 15 minutes London and Heathrow has Just 12 minutes later we slid into wallowing in first class, a minical Heathrow Junction, the temporary terminus for the service.

shock to be deposited on a windy platform apparently miles from anywhere. However, we were guided politely on to waiting buses, Just a few minutes later the bus drew up outside the terminal, a few steps from the check-in desks.

But all good things come to an end. BAA, the privatised airports operator that is leading the £440m project, is doubling fares when the full service comes into operation, and suddenly it all looks a lot less like a good idea. The distance from train to check-in desk will be longer. The new stations are underneath the sirport and the walk to the terminal will be "about four minutes", says Heathrow Express. With one-way tickets £10, or £20

at between £18 and £25 starts to erminus for the service. look competitive – and it drops you Granted, it comes as a bit of a right outside the terminal.

Save Our Railways, a pressure group, says the new service, at 68p a mile in second class, will be the most expensive of the rail links to UK airports. By contrast, the 26mile journey on the Gatwick Express costs 58p a mile, while the best value is the 41 mile rail link from Liverpool Street to Stansted at 42p a mile. Cheapest is the Tube. which costs £3.30 to Heathrow from central London. BAA defends its pricing. "We're aiming it at the users of Heathrow," it says, remarking that 42 per cent of Heathrow passengers are business travellers. We think it will be very competitive "

Shortly after we left a smiling if you really want to throw your Kate Bevan

Train companies spending to make up for lost time

travel in the UK. Three years after British Rail became 25 private franchised train operating companies, performance has been mixed.

The companies inherited ancient

rolling stock, slow trains and an image of unreliability and unpunc-tuality. Many have added comforts synonymous with air travel; new seats, more legroom, lounges and improved food. But being cossetted on board counts for little if the

train is an hour late. The companies blame Railtrack responsible for rail infrastructure, for delays. In its defence, Railtrack says that, until privatisation in 1996, it was constrained by public spending. "It's due to a lack of

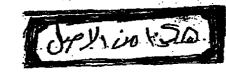
investment for 40-odd years." The company is investing £16bo.

The adage that things get worse before getting better will modernise the west coast mainline, running from London via mainline, running from London via the West Midlands to Scotland, and

last upgraded in the early 1970s. High-speed (140mph), tilting trains will use it, cutting the Loudon-Manchester journey of 2% hours by 45 minutes. Great North Eastern Railway and Virgin Trains have ordered tilting trains that will bring London-Edinburgh down to 3hrs 30mins in 2000.

Lorraine Flower, marketing and sales director of GNER, says: "I would stress that we're no worse than airlines: it's just that people are less tolerant of a 15-minute delay on a train. The image of train travel is pretty shoddy whereas sirlines are sexy."

Gillian Upton



to ensure free flow of goods

INSIDE TRACK



INFORMATION TECHNOLOGY WINDOWS 98

The same, but different

Microsoft plans to start production of its PC operating system today. Paul Taylor finds it evolutionary rather than revolutionary

98, its new personal computer operating system, for manufacturing today. PC manufacturers and consum-

But in spite of the fuss and bother surrounding the is risky to try to remove the planned launch of Windows 96, some PC industry commentators argue that it represents little more than a tomise the information that collection of "bug fixes" that appears on their screens and whether it is Microsoft should have supplied free.

ling reason to buy Windows users' systems automati-98 except for the bug fixes and the USB [Universal of so-called "push technol-Serial Bus, a faster and more convenient way to connect ing function immediately. peripherals] support," says John Dvorak, one expert.

Having run a succession of "beta" or fest versions of forward and backwards Intel 486/86Mhz microproces modem communications
Windows 98 on my PC for arrows, "favorites" button, sor with 16Mb of memory, a devices. the past five months, I sym- and links: Adopting this CD-Rom drive and about Portable power. Windows are likely to wait for the pathise but think the critics makes Windows 98 easier to 200Mb of free hard disk 98 also gives users much next version of NT, NT5. are being a little harsh. That use and means that there is space. In reality, however, more control over notebook. This is due to be launched said, it is indeed debatable an distinction drawn unless you have at least a PC power consumption.

running Microsoft's Internet dows 95 was.

ment).

from the screen "desktop", it program entirely.

In common with IE4, Winsign up for TV-style "chan-nels" which feed information, worth forking out "I don't see any compel- over the internet to the cally. Like most early users ogy", I disabled this armoy-

Barring last-minute legal manoeuvres or delays. Microsoft, the world's largest software legal manoeuvres or delays the antitrust investigation times, particularly on new group, will release Windows by the US Justice Depart- PCs; improved support for multimedia and games; in-Netscape Navigator fans: built support for new periph-

can, of course, continue to arals including digital versa-use that browser, and keep it tile disc drives, advanced ers wanting to upgrade their as the default ensuring that graphics port video cards systems will be able to it opens when you click on, and devices like scanners install the new software an internet link. But while and printers. The latter are you can remove the IE4 icon expected to migrate towards use of the USB.

In terms of hardware

dows 98 enables users to cus- it is debatable £85.50 for the upgrade

"patches" and updated "drivers" for other devices that modems and phone lines for have been released for Windows 95. In addition, Windows 98 includes an update International Data Corporafeature that connects over tion, the market research the internet to a Microsoft company, forecasts that site to collect future bug early sales of Windows 98 fixes and updates.

• Performance: Microsoft claims applications will start launch. IDC expects Microup more quickly compared soft to ship 12.8m copies of with Windows 95 and run a its new operating system bit faster. • Problem Handling: Even

in its beta form Windows 98 is more stable than its predecessor and less liable to "crash" or "hang". The new software also includes features that make it easier to more helpful if things do go come to grips with Year 2000

wrong.
Plug-and-Play: In Windows 95 the feature designed automatically to configure new devices attached to a PC Microsoft has pushed Winwas widely known as "plugand-pray". In Windows 98 it ating system for corporate is still not perfect, but is a However, Windows 98 requirements, Microsoft lot better. Portable PC users, incorporates the familiar claims Windows 98 will run in particular, will value its browser interface with its on a machine fitted with an improved handling of

whether it is worth forking between a file or programme. Pention 1234hz machine it out £85.50 for the upgrade stored on a local hard drive inght be better to consider the way data are stored on a local hard drive inght be better to consider a new type of file format — the way data are stored on a disc — that is more efficient want particular features not available in Windows 95.

Windows 98, as one beta smoother, faster and more—surface which could make tester noted, "is the same, but different" from Windows 98 and performance as Win-sion of Windows 98 will incorporate all the bug fixes.

PC power consumption.

Hard disc space FAT32 is a new type of file format — the way data are stored on a disc — that is more efficient than its predecessor and disc — that is predecessor and disc — that is predecessor and allows data to be packed more tightly on a hard disc.

Internet access: Aside from integrating the IE4 web prowser, the software also incorporate all the bug fixes.

In spite of these advances,

users to combine multiple

will lag 15 per cent behind those of Windows 95 after its this year, compared with the 19.5m copies of Windows 95 that were shipped in 1995.

One reason for the projected shortfall is the lack of any real reasons for corporate PC users to upgrade their systems - particularly diagnose problems and is since many are struggling to computer date problems and the need to prepare for Emu.

In addition, since the launch of Windows 95, dows NT as its flagship opercomputing and has clearly positioned Windows 98 as consumer upgrade.

As a result, many compa nies that are still running Windows 3.x or Windows 95 some time next year and will include several features designed to reduce cost of ownership and improve communications and manage-

Overall, Windows 98 does represent an improvement on Windows 95. But it is an evolutionary rather than revolutionary product and one that most consumers incorporate all the bug fixes, aggregation that allows could afford to live without



GERARD BAKER FILE FROM WASHINGTON

Grand masters of spin strut their stuff

White House press officials have their own | decision-making process lingo and know just how to keep reporters hungry for the next sound bite

"We'll have a readout on the | the aqua vitae of all pull-asides at a gaggle at 7 o'clock."

As with most of the indispensable instruments of modern democracy, the argot of news management has been refined, distilled and perfected by the White

While the US president himself speaks directly to Washington and the world in a declarative simplicity designed to capture the grand themes of the US global view, his spokespeople com

with the press in a convoluted language, replete with half-recognisable syntax and weird neologisms, which captures the demands of news control.

Nowhere is this dichotomy better illustrated than when the president travels abroad. This weekend, President Bill Clinton has been in Britain for the annual Group of Eight summit. His messag has been unrolled in a series of suitably momentou speeches. But officials have been chattering to the media in a language filled with ersatz technicalities, like senior air force commanders briefing and debriefing crews about a risky sortie.

In its simplest form, this exercise is known to the world as spin doctoring (rotational medicine, the polysyllabic humorists like to call it), imitated nowadays the world over but inimitable in its pure American form.

But the media operation of the White House is in reality much, much more than mere spin doctoring. In other countries, officials may brief and guide, threaten and cajole, but even the professional imag consultants of Tony Blair's

British government are mere pygmies in the Amazonia of American politics. That is because the simple briefing process is part of a much broader control

operation by the White

Foreign travel emphasises the importance of that role. The administration ensures a culture of almost complete dependency for the White House reporters. This covers not just the obvious - the regular flow of news that is iournalists - but the little entials and inessentials of life for hard-working

reporters on the road From the moment they leave the White House until they return bearing their knick-knacks and souvenirs reporters are conveyed, cossetted and catered for by the administration.

For a princely fee the White House flies them around the world and keeps them spoonfed with a steady supply of victuals, shopping trips and passport control.

No other government comes close to the all-inclusive service provided by US officials. At the White

flow of news down to the This can lead to tensions. All but the laziest or most suggestible of reporters feel

In case you were

wondering, a readout is,

well, a read-out by an official of what happened at a

meeting of senior member

pull-aside is a brief scheduled meeting between

two leaders in the context of

a broader gathering - in this

case of the G8 summit heads

A gaggle is a briefing. Only

conducted on the fringes of a

larger press event such as a

ensure that the White House

controls the content and the

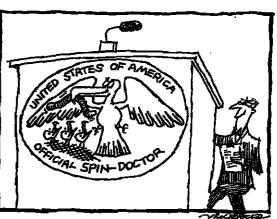
it is an informal briefing

The overall effect is to

news conference.

of the administration. A

irritated by their



House reporters sit hungrily waiting for the latest briefing from a senior official

In the process, however hard they resist, journalists become co-opted into what is a remarkably efficient news management process. Every word of every

briefing or press conference is recorded and immediately transcribed for the benefit of reporters.

Everywhere the president goes, he is accompanied by the famous "pool" of reporters where his every move is observed by a handful of reporters and immediately relayed to the rest of the pack back at the press centre. At carefully selected moments, senior officials make themselves

"media available". And the semantics are an ssential component of this co-option of the poachers by the gamekeepers. Knowing the language subtly makes us all feel part of the inner

House and occasionally they revolt. It is fair to say that a significant part of the explanation for the president's troubles over alleged sex and legal improprieties in the past few months is that they have been taken up with such intensity by reporters because of this frustration

with the White House. At last they have watched in glee as officials spin out of control, unable to manage

the news. But it takes a powerful alternative source of news like a leaky independent prosecutor's office - to trump the White House operation.

When it does, the howls of anguish from the White House, as officials rail against the outrageous behaviour of the press and those who would seek to manipulate them, are dutifully reported by all of us – whether from a gaggle. a readout or a pull-aside.



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TIM JACKSON

Internet profits begin @Home

Cable access should make modems obsolete and its pioneer rich

conference in Parls on the internet and telecommunications put three questions to delegates. Do you use the internet from home? Are you dissatisfied . with the speed of access? Do you live in an area served by cable television?

An overwhelming majority of the audience answered yes to each of these. The questioner, John O'Farrell, was delighted. For those answers suggest that his job

FINANCIAL TIMES

"Great

Minds"

Providing directors and or executive, with an exercise facults to large new constant, exchange steel learn from

as international chief of the | Founded as an unusual joint @Home Network may not be a tough one.

@Home is the Silicon Valley-based company that has pioneered internet access through cable television networks. It was last covered in this column when it started its first service in Fremont, California, 15 months ago. Since then much has

Most startling is the company's valuation.

LEGAL NOTICE

IN THE HIGH COURT OF RISIDCE. CHANCERY DIVISION COMPANIES COURT IN THE MATTER OF BRUNTYLEFFE AGGREGATES PLC IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HERRBY GIVEN that a Perhion was on 1 May 1998 presented to the Majory's High Court of Insist for the confirmation of a vederation of the State Prentum Account of the above-named Company from \$14.423.552 to \$12.578.663. AND MOTICE IS FURTHER CIVEN this the maid Petition is directed in be beard before the Registers of the Companies Court at the Royal Courts of Junion, Scient. Lendon, WC2A 3LL on 3 June 1998.

ANY creditor or shareholder of the said Company desiring to oppose the saiding of an Order for the confirmation of the said reduction of the Share Pression Account should appear at the time of hearing in person or by Counted for the purpose. A copy of the said Perition will be issuished to any such person requiring the cause by the order mentioned solicitors on payment of the regulated charge for the same. Solichers for the above take

venture between TCI, a US cable business, and Kleiner Perkins Caufield & Byers, a venture capital fund, the company is now publicly quoted and boasts a market capitalisaton of \$5bn (£8bn).

Having started with just one cable partner @Home now has nine, giving it access to the 50m homes passed by these firms. Customers can sign up for cable internet without subscribing to the TV

As those three conference questions showed, its pitch to customers is compelling. Anyone who has experienced the frustration of the so-called "world wide wait" is easy game for a service that is two orders of magnitude faster than a modem. @Home has signed up 6-8 per cent of the customers to whom it has offered its service -

of the households with imernet access Although the company does not own any of the infrastructure at the customer's end, it charges its cable partners 35 per cent of the \$40 monthly subscription fees paid by consumers - and a higher percentage of the advertising and transaction revenues

from online shopping.

You might expect a cable

company would be reluctant

to give away such a large

slice of a potential revenue

equivalent to about one-third

stream. But the mass market which a Morgan Stanley report predicts will result in half the internet service provision market moving from narrowband modem access to broadband cable-style access by 2002 wants something more. The average consumer

who is typified by internet provider America On Line's customer base, wants applications and services that take full advantage of the capabilities of a broadband network. @Home has a range of

news and entertainment content, and can record and store news clips. The network also acts as a channel for distributing downloaded software; while t remains impractical to use a modem to download a copy of Microsoft Office, for instance, it is easy to do so using @Home.

The network has also scored some early advertising successes. It claims CPMs (revenues per thousand impressions) of \$50-\$100, five times the average received by most web sites. Some advertisers take

advantage of its broadband features: *Motch.com*, an internet dating service, ran video clips from happy customers describing how they found love, and saw a clickthrough rate, the proportion of people viewing it, of 26 per cent. But even narrowband merchants such as

have bought long-term @Home. Amazon seems to view @Home as a potentially powerful participant in the wider internet access market as a whole, not a niche And the next move?

@Home is going international. Having set up shop in Canada in April 1997, it has struck a deal with two Dutch cable providers that will allow it shortly to lannch a Netherlands service. It is also likely to announce its first deal in the UK in the next week or two. The company faces a

from @Home's US business. Since many cable companies in Europe are also phone companies, potential partners face the loss of an existing revenue stream if they sign up - because narrowband internet access brings in per-minute telephone charges in most European countries.

different class of partner

Over the long-term, however, more phone companies are likely to sign up as @Home partners. Although broadband will unquestionably start by taking narrowband call revenues, its advantages for consumers are so compelling that the phone companies will be forced to jump on board. Someone is certain to take away their sources of existing revenue. So it might

Amazon.com, the bookseller, tim jackson@pobox.com

as well be them.



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C BELLYILLAND B

BOCTOTHON BBOTTE

Castern Europe, ABCTPMICKIAN

банком Вы смо-

understand what s written KETE HITATE

between the lines. Между СТРОК.

Ah, so you've already visited Eastern Europe. [That's nice.] And you noticed a lot of **new things** while you were there. [Yes, indeed.] The folks over there have a somewhat different attitude to business than we do. [Really?] And you made some interesting **business connections**. [Sounds good.] They were so open to your ideas and they made an absolutely fabulous **business proposal**. [Careful now.] And they want to make a deal with you in the very near future. [Now's the time to get in contact with the Bank Austria Group - quickly - the **leading provider** of

financial services in Central and Eastern Europe. The Bank Austria Group last feats at Know how and experience in dealing with the eastern half of Europe and offers a full range of financial services.] It could be that your families business venture could soon expand to other Eastern Europeast of British of Worry. The Bank Austria Group has a families at the first of worry. The Bank Austria Group has a families for more integrnation about this banking group send a fax to ++43/1/711 91-58 652.]

Больне банка Убольне шансов.

JAN 10 150

Korea

genemi Strike

SAINT LOUIS Opera Theatre of Saint Louis's 1998 season opens on Saturday with a new production of Gounod's Faust, staged by Colin Graham and conducted by Emmanuel Maume. Other rightlights include Katya Kabanova taged by Joanne Akalaitis nd the first US

production of Goehr's Arianna. Performances, all sung in English, take place at the Loretto-Hilton Center at Webster University,

Inbutes to Leonard Bernstein above) and Cole Porter are the pick of this year's BOC Covent Garden festival. The Bernstein evening, starting Sally Burgess. takes piece next Sunday, and Kim Criswell feetures in the Porter celebration a week later. Both events are at

the Palace Theatre. LUGANO Valery Gergiev and the Kirov Orchestra begin a

tour of Switz

on Saturday at the Palazzo del Congressi. The tour, sponsored by Credit Suisse, includes concerts in le, Berne and Geneva, but not Zuzich, in Montreux, the Kirov ensemble will give a concert performance of Tchalkovsky's

The Queen of Spades:

CINCINNATI _____ James Levine, e Cincinnatti

native, brings the Metropolitan Opera Orchestra to the Music Hall on Wednesday to open the 125th anniversary Cincinnatii May festival. In the remaining five programmes, the testival's music. director has justaposed works performed at the fast feativel with contemporary compositions, including a new choral work by Alvin Singleton.

LIVERPOOL The Tate Gallery Liverpool reopens on Saturday after a £7,m development scheme to create new galleries and improve facilities for visitors. Among the inaugural displays is an exhibition of the Tate's entire holdings of time outside London.

VIENNA The Staatsoper is mounting a rare production of Meyerbeer's Le prophète, starring Placido Domingo, Marcello Viotti



Neuenfels. The first night is on

BATH The eccentric and Eurocentric Clerical Medical Jazz Weekend, part of Bath's wide ranging international Music Festival opens on Friday. Among the delights are German passist Eberhard Weber. **Dutch improvisers Ernst** Reijseger and Han Bennink and

MOSCOW American theatre director Robert Wilson (left) makes his Russian debut tonight with his interpretation of the myth of Persephone. Originally created for

London's high stepping homs,

Jazz Jamaica.

of Zeus's daughter, Hades and made queen of the underworld. The venue is the Moscow Arts Theatre

new York The Pierpont Morgan Library has memorabilia to mark the centenary of the death of the nathematician and Dhotocrapher Charles L. Dodoson (1832-1898. below), better known as Lewis Carroll, the author of Alice in Wonderland (original Tenniel Illustration left). The exhibition opens on Wednesday and runs until

New York City Ballet's season continues at the State Theatre with a Spring gala on Wednesday, featuring an all-Jerome Robbins

programme, and a "new generations" programme on Saturday, Just across Lincoln Plaza, at the Metropolitan Opera House, American Ballet Theatre's season has got underway, with Gisalie programmed for this week

The Italian connection is strong at Cannes this year. Martin Scorsese heads the jury; John Travolta opened the main programme with the Clinton-based satirical drama Primary Colours, showing out of competition; and Mimmo Calopresti directed the first film in the 30th-anniversary Quinzaine des Realisateurs, a tale of agony, ecstasy and identity crisis called The Word Love Exists.

The message is clear. Passion, emotional and intellectual, is what we are in for. And to prove it, the first two Golden Palm-competing movies were Colombia's The Rose Seller, in which the tragic youth of Medellin run about the streets weeping, loving, speechifying and railing against poverty, and France's Ceux Qui M'Aiment Prendront Le Train, in which the human population of filmmaker Patrice Chereau's head run about a train weeping, loving, speechifying . . .

Neither film quite hits the mark and Chereau's, shaped as a memory-besieged rail journey, plays like an erratic Dennis Potter pastiche. But at least the energy level is there for a festival that boasts new films from Boorman, Gilliam, Imamura, Nanni Moretti and others and also promises a bizarre obsession with outcasts and outlaws.

Boorman's The General, made in black-and-white, is like a Francesco Rosi film set in Dublin. A real-life anarchic hero, the late super-criminal Martin Cahill, pits himself against every authority group from the police to the IRA while carving lawless patterns across the land and/or the bodies of his enemies. Boorman doesn't quite make this caustic tragicomedy work, even with Brendan Gleeson's mercurial, bully-boy lead performance. But it is his most defiantly oddball film in . how much more than a mere has a lovely feel for suspended

European cinemas next week. The other British veteran in Name Is Joe is his best film in Kasdan's Zero Effect is a detecyears, so lithe and gymnastic in se into the thriller narrative that develops late on. Joe (Peter Mullan) is a jobless ex-alcoholic with a semi-criminal past. He endangers his romance with a high-principled social worker (Louise Goodall) by taking "one last job" to bail out a gang-menaced friend.

It goes horribly wrong - we know it couldn't go right - but even then Loach doesn't leave the story with a trite finish, has jangled so many nerves, emotional and social-political, that the audience is left moved and society that even at its most well-meaning cannot paper over the cracks caused by poverty and opportunist crime. Paul Laverty's script is light years ahead of his last effort for Loach, Carla's Song. A fine cast of unknowns mactic emotional power shows But the writer-turned-filmmaker



Passion, outcasts and off-the-wall surrealism

Nigel Andrews reports on the highlights of the first week of Cannes

and Borges time-machined to modern L.A. Take an agoraphobic gumshoe (Bill Puliman), a O'Neal) and a fille fatale with an

years: more when it opens in slice-of-life specialist Loach is. time and upended expectation. Three off-the-wall American This is world of magical epiphamovies have been the other early nies and encounters, where competition is Ken Loach. My highlight of the festival. Jake stones can levitate, life can be rewound, and even an average tive story written as if by Kafka dinner party will feature Vanessa. Redgrave as a peroxide-wigged avant-garde stage producer plus Mandy Patinkin telling the most tycoon with a secret (Ryan surreal airline story ever heard. Surrealism, of course, is a delieven bigger secret (Kim Dickens) cate flower. Treat it roughly and in the movie auditorium.

not ward off monotony. Where Thompson's word-play was funny, febrile and inventive. Gilliam's camera-play is all frantic excess. From the hotel lobby where human faces morph into primeval animal heads to the endless coloured filters, tilted angles and fish-eye close-ups, we feel like people condemned to live out a "bad trip" right there

Johnny Depp camps it up with a will, if not exactly a wit, with a solar topee, a marijuana cigarette-holder and a bandy-legged zig-zag walk that suggests a substance-abusing Groucho Marx

slow, stylish, witty, hypnotic. chastened, nervously pondering a The Bridge: too slow for some Keitel, as a saxophonist given a in the chest, and Mira Sorvino as the mystery muse-cum-angel he meets. Is it real? Is it a dream? Is does justice to a film whose cli- it a fable? Bits of all three really.

either doomy or upbeat. The film and then lavish teasing, literate it sheds leaves and petals all over dialogue on them. The film is the screen. Terry Gilliam's Fear And Loathing In Las Vegas is two So is Paul Auster's Luhi On hours of free-form vandalism carried out on Hunter S. Thompcritics who cried "Catatonia!" of son's eloquently stoned testathe romance between Harvey ment to the 1960s. Johnny Depp camps it up with a will, if not second life after catching a bullet exactly a wit, as the Thompsonbased hero, complete with floppy solar topee, marijuana cigaretteholder and a bandy-legged zigzag walk that suggests a substanceabusing Groucho Marx.

tent promised for the festival's second week, though from the surer artistic hands of Lars Breaking The Waves Von Trier. His sexually explicit film Idioss has already caused censorship convulsions in his native Denmark but will probably be greeted here with the usual sober critical response: just 2000 journalists trampling over each other for best-view seats in this lively, annual Gomorrah-on-the-Med.

A leap in the dark

Glyndebourne is going through a period of change, writes Andrew Clark

a well-worn nath to the Sussex Downs for the opening of the Glyndebourne season. They will picnic, quaff champagne and laugh politely at the romantic twists of Cosi fan tutte. Few will be aware that Glyndebourne is plunging into a period of upheaval and uncertainty.

Over the next 18 months, virtually all key executive posts. including Sir George Christie's chairmanship, will pass to new faces. For an organisation which prides itself on steady evolution, the changes represent a leap in the dark. They will not only noint Glyndebourne in new directions of style and repertoire, testing its relationship with its audience; they will also determine whether the festival can adapt to the changing demands of the opera business

At the end of the summer, Nicholas Snowman - currently chief executive of London's South Bank Centre - will succeed Anthony Whitworth-Jones as Glyndebourne's general director. By next season the festival will announce Andrew Davis's succes sor as music director. The new appointments will probably lead to a loosening of ties with Graham Vick, who has been director of productions since 1993. Glyndebourne has long prided itself on its artistic partnerships, from Fritz Busch and Carl Ebert in the 1930s to Davis and Vick in the 1990s. Finding replacements will be Snowman's first hurdle.

But the most significant change is Sir George's decision to hand over control to his son Gus at the end of 1999. Sir George, 63. will continue to live at Glyndebourne, and wants to retain close links with the festival "without intrusion on my successor". The question is how much power Gus will want, and whether he can

exert it as subtly as Sir George. In the public eye, Glyndebourne's artistic success has always depended on the Christies' ability to attract the right personnel, and let them get on with it. Under Sir John Christie, the founder, that may well have been the case. But as Sir George gained experience and the festival grew in size, Glyndebourne has developed into a proper family business.

No decision - from choice of repertoire to the casting of parts is taken without Sir George's tacit approval. Only a man of his charm could have persuaded corporate donors to part with £33m for a rebuild of what is essentially the Christies' private theatre. It was he who masterminded the public relations campaign when it opened in 1994 - blinding everyone to the fact that the

Thursday afternoon, acoustic is far from wonderful black-tied opera-goers will follow and backstage facilities pose many of the old problems. And it is Sir George's taste which continues to govern repertoire.

> Thanks to Sir George's influence, Glyndebourne remains a paternalistic organisation, in which staff behave like old family retainers and singers feel they are part of an 18th century court theatre. This is not an atmosphere which encourages independent management hence the pattern of recruiting executives from within the Christies' circle. Sir George's association with Whitworth-Jones and Snowman dates back to the early 1970s, when both managed the London Sinfonietta under his chairmanship. Whitworth-Jones ran Glyndebourne's touring branch before assuming the top job; Snowman had worked at Glynde-

bourne in the 1960s. The disadvantage of such networking is that it encourages def-

Over the next 18 months virtually all key executive posts, including Sir George Christie's chairmanship, will

erence to the Christies. By the same token, it gives Glyndebourne a system of checks and balances, enabling it to avoid extremes of taste and, more importantly, to keep in touch equilibrium will be just as great with its audience.

pass to new faces

The partnership of Snowman and Gus Christie is certain to change the balance of power, at least initially. Snowman meets the family's need for a trusted manager to guide its confident but inexperienced scion through his early years. Snowman, 54, is likely to be a more opinionated policy-maker than Whitworth-Jones. Echoing Sir George's 1962 manifesto for "modern works and neglected masterpieces", he is keen to programme Oberon, Brouček. Busoni, baroque and French repertoire. Apart from an already-planned Fidelio, the 2001 season will be the first to bear

Snowman's stamp. Gus, the Christies' 34-year old second son, has been a member of the board for two years. He has served brief apprenticeships at the Bastille, the Royal Opera House and Tricycle Theatre, and spent four months filling in as Glyndebourne's finance director. Sir George's wish is that Gus should eventually take over as

general director. "It would save a bob or two," says Sir George laconically. "He hasn't had the opportunity to rebuild, as I had. He might as well manage."

The changes in Glyndebourne's executive line-up may be of little concern to the festival's 5,500 ordinary members, but they will be studied with interest by the 600 founder-subscribers, some of whom contributed £150,000 to the rebuild in return for a guaranteed block of seats each season. It cannot have escaped their notice that Glyndebourne has had to take out newspaper adverts to sell performances of Katya Kabanova - a sign that, even with a 30-year membership waiting list, festival audiences still baulk at the prospect of Janaček.

Sir George acknowledges "a duty to go down a route that our founder members feel reasonably familiar with". Therein lies one of the unresolved tensions stemming from the rebuild. With tickets priced as low as £10, the new theatre opened the festival to a wider social mix of opera-goer, all 3,200 standing places for this summer's festival were sold within hours.

That suggests a pull towards more modern repertoire, a more informal style - the opposite of what founder members believed they were paying for. In the eyes of many of Glyndebourne's traditional audience, dressing-up and picnicking by the ha-ha are still the most important part of the experience. This tension between different types of audience suggests the Christies did not take full account of the consequences

of a bigger theatre. The challenge to maintain backstage. Glyndebourne is not a good payer; this year's top fee is £1,900, a quarter of what a soprano like Amanda Roocroft, singing Katya, could expect at Covent Garden. Stars like Kiri te Kanawa and Anja Silja can afford the drop in fee for the benefit of a "iolly-up" on the Sussex Downs But if the international opera business recovers from its current recession, established singers may not want to sit around at Glyndebourne all summer when they could be earning more for three weeks' work elsewhere.

The 1998 Glyndebourne line-up however, with a cast of fresh young voices in Cost and Andreas Scholl in Handel's Rodelindo bears the hallmark of a good vintage. Next season promises The Bartered Bride produced by Nikolaus Lehnhoff and conducted by Jiff Kout, a Richard Jones staging of Jonathan Dove's new opera, and Polléas et Mélisande from Vick and Davis - whose grand finale will be Figaro and Don Giovanni in 2000.

INTERNATIONAL

Arts Guide

BATH EXHIBITION

American Museum Tel: 44-1225-460 503 Shaker: The Art of Craftsmanship. Furniture and decorative arts from the Shaker community at Mount Lebanon. Previously seen at the Barbican, London, the show traces the history of the Shaker movement from its origins in late 18th century England, through its development in 19th century America; to Oct 25

BERLIN CONCERTS **Philharmonie** Tel: 49-30-2548 8354 Berlin Philitermonic Orchestra: conducted by Emmanuel Krivine in works by Beethoven and Tchaikovsky: May 18, 19 Berlin Philinarmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist Andrés Schiff; May 23

■ BONN EXHIBITION

Bundesrepublik Deutschland Tel: 49-228-917 1200 www.kah-bann.de The Iberians: display of 350 objects made, between the sixth and the first century BC, by a little-known civilisation that existed on the west of the Mediterranean bowl, between Andalucia and Languedoc. Some of these objects before from the sites of their excavation. Others have been

loaned by Spanish and French.

museums; to Aug 23

BRUSSELS

Kunst- und Ausstellungshalle der

OPERA La Monnaie Tel: 32-2-229 1211 Il Ritorno d'Ullisse: by Monteverdi. New production conducted by Philippe Pierlot in a

staging by William Kentridge. With the Handspring Puppet Company. at the Lunatheater, May 19, 20, 22 L'Orfec: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown. with designs by Roland Aeschlimann; May 19, 20, 21;

CHICAGO CONCERTS Orchostra Hall Tel: 1-312-294-3000 www.chicagosymphony.org Chicago Symphony Orchestra; in works by Brahms and Shostakovich. With piano soloist André Watts; May 19

 Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 3 and 4; May 22, 23

FLORENCE OPERA

Tel: 39-55-211158 www.maggioflorenting.com Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola: May 21, 23

GENEVA CONCERT

Victoria Hall Tel: 41-22-3170017 Orchestre de la Suisse Romande: conducted by Edmon Colorner in works by Turina, Ravel and Falla. With plano soloist Alicia de Larrocha; May 20

HELSINKI

Finnish National Opera Tel: 358-9-4030 2211 The Magic Plute: by Mozart. New production by Swedish director Etterana Glaser, designed by Peter Tiliberg; May 21, 23

LONDON Royal Festival Hall Tel, 44-171-960 4242 The Royal Opera: Die agyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast.

includes Deborah Volgt and Thomas Moser, May 22

LOS ANGELES CONCERT

Dorothy Chandler Pavilion Tel: 1-213-365 3500 City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts a programme of works by Rameau, Haydn and Beethoven; May 20

MILAN

OPERA Teatro alla Scala Tet: 39-2-88791 www.lescele.mileno.it Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustatson: May 19

with this production, originally

created for outdoor performance.

about Zeus's daughter, who was

abducted by Hades and made

queen of the underworld; from

MOSCOW THEATRE Moscow Arts Theatre Tel: 7-095-229 8760 Persephone: director Robert Wilson makes his Russian debut

today to May 23

MUNICH **OPERA** Bayerische Staatsoper Tel: 49-89-2185 1920 The Midsummer Marriage; by Michael Tippett. Mark Elder

conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 18, 22

NEW YORK CONCERTS

Tel: 1-212-721 6500 www.fincoincenter.org

New York Philhermonic: conducted by James Conion in works by Rachmaninov and Liszt. With plano soloist Garrick Ohlsson; Avery Fisher Hall; May 19 New York Philharmonic conducted by Kurt Masur in Shostakovich's Symphony No. 7, "Leningrad"; Avery Fisher Hall; May

EXHIBITIONS Museum of Modern Art Tel: 1-212-708 9480 www.moma.org Alvar Aalto: Between Humanism and Materialism. Centenary tribute to the Finnish architect, designer and town planner. Includes sketches, drawings, models and photographs, many of them loaned by private collections in Europe: ends tomorrow

OSAKA EXHIBITION

The Museum of Art, Kintetsu Tel: 81-6-624 1111 Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. The exhibition marks the centenary of his tragically early death, aged 25, and will arrive in London in

October, after touring in Japan; to Jun 8

PARIS CONCERT

Théâtre des Champs Elysées Orchestre Național de France: conducted by Vassili Sinaïsky in works by Haydn, Saint-Sains and Beethoven. With cello soloist Han Na Chang; May 19

ROTTERDAM EXHIBITION

Tel: 31-10-440 0300 Look at me: Fashion and Photography in Britain, 1960 to the present. First stop for a touring exhibition which tracks the development of fashion photography, with its emphasis firmly on popular culture rather than haute couture; to Aug 9

SAN FRANCISCO CONCERT Davies Symphony Hall Tel: 1-415-864 6000

www.sfsymphony.org The Met Orchestra: conducted by James Levine in works by Rossini. Tchaikovsky, Tan Dun and Ravel. With violin soloist Mexim Vengerov; May 18

TOKYO **CONCERTS** Tel: 81-3-3584 9999 Cleveland Orchestra: conducted by Dohnányi in works by Ives.

Mozart and Brahms; May 20 London Symphony Orchestra; conducted by Sir Colin Dayls in works by Mendelssohn and Elgar,

VENICE EXHIBITION Palazzo Grass Tel: 39-41-523 1680 www.palazzograssi.it Picasso: 1917-1924. Beginning with works inspired by his designs for the theatre and the Commedia dell'Arte, this display also picks up the return to classicism which coincided with Picasso's first visit to Italy in 1917; to Jun 28

TV AND RADIO ● WORLD SERVICE

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 CNN international Monday to Friday, GMT: 06.30: Moneyline with Lou Dobbs 13.30: Business Asia 19.30: World Business Today. 22.00: World Business Today

Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20;

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.



Hypocrisy and the bomb

India's nuclear tests have shown the weakness of the west's non-proliferation policy

tests carried out by India has demonstrated the illogicality underlying the western policy on non-

They have led to the absurd spectacle of British politicians condemning India for acquiring a deterrent they themselves possess. At the same time, the US has imposed sanctions against a democratic Asian state which has strategic interests arguably coterminous with its own - while helping its ontential communist enemy in the region, China, with the export of missile technol-

It is important to realise that the relevance of the Indian bomb to Pakistan the issue that has dominated red herring. As the recent undiplomatic statements by the Indian defence minister have emphasised, the real strategic threat that India perceives is from China.

To the extent that Pakistan enters the picture, it is as a surrogate or partner in this threat. For on its own, as Pakistan itself realises, predominantly in India's favour that in any conflict Pakistan would stand no

nese threat absurd, as a leader in the Financial Times claimed? That is the central question in forming a judgment on the Indian decision to become a "fully fledged" rather than a

threshold" nuclear power. Historically, China has not been an expansionary power. and has, at worst, sought to assert control over what it considers to be its historical frontiers. This historical judgment, plus the geographical shield provided by the Himalayas, persuaded Nehru, India's prime minister from 1947-1964, to discount any Chinese threat to Indian security. Yet the traumatic invasion of 1962 took place. The Chinese motives for this attack remain obscure, but no Indian politi-



The continuing border dis-

pute, though recently muted.

remains a running sore

affecting relations between

Add to these worries the

following: Indian claims of

Chinese missiles in Tibet

aimed at India; a growing

attempt by the Chinese to

extend their naval reach in

the Bay of Bengal through

mese junta; and the

announcement during the

past year of a significant

upgrading of Chinese mis-

siles. One does not have to

be too paranoid to look

towards the north from the

sub-continent with trepida-

tion and to search for some

deterrent. India hopes to pro-

vide some deterrence by sig-

nalling its intention to

become a fully-fledged

I am aware of the continu-

argument among defence

experts about the strategic

and tactical usefulness of

nuclear weapons. But as Pro-

fessor Lawrence Freedman

concluded on the cold war

debate about nuclear deter-

rence: "What we do know is

that since 1945 Europe has

been at peace. This underlies

nuclear power.

ents with the Bur-

the two countries.

What is there to ensure it the point that nuclear deterwill not happen again? rence may be a viable policy Clearly, the two decades of even if it is not credible ... The Emperor deterwhat was subsequently perceived by many as Nehru's rence may have no clothes, appeasement of the Chinese but he is still Emperor." did not prevent the conflict.

Why should this not apply to the triangular relationship between India, China and its "ally" in the subcontinent, Pakistan? It would be extreme hypocrisy for European governments that rejected the Campaign for Nuclear Disarmament's arguments to punish india with sanctions for adopting a similar stance.

From the strategic perspective, the US's condemnation of India and its imposition of sanctions seem bizarre.

Suppose for the sake of argument that the Indians are wrong in their perception of a Chinese threat to their security, what then is the purpose of the recent Chinese military build-up and desire to develop sophisticated missiles? The threat to China from

the former Soviet Union must have diminished with its break-up. India is clearly ous and essentially circular not a threat, nor other neighbours. The only answer is that the Chinese are seeking to find a strategic deterrent against the US - a presumption that strengthened by the continuing stand-off in the Taiwan

If the strategic interests of Angeles.

China and the US are so clearly at odds, it would seem bizarre to penalise the one country in the region

that might provide a strate-The US sanctions, being mandatory, were probably unavoidable, though the indians rightly question why exceptions are made by the White House in the case of China, despite congressional laws regarding human rights that require sanctions. India is, after all, the only flourishing democracy in the region and to penalise it while turning a blind eye towards the behaviour of an authoritarian, potential strategic rival, seems illogical.

The reason, of course, is the attempt to save the flawed non-proliferation regime, of which the comprehensive test ban treaty is the most egregious. It has hopefully been killed by the Indian blasts.

.The distinction between "threshold" and "acknowledged" nuclear states was always artificial. As the west has demonstrated by its own actions, national security realpolitik rightly takes arecedence over political correctness. The countries that have chosen to give up their nuclear weapons - South Africa, for example - or cbosen not to develop them, have done so because of their own calculations of costs and benefits, and not because of the norms established by the nonproliferation treaty.

The legitimate concern non-proliferation regimes is preventing the acquisition of weapons of mass destruction by "rogue states". But none of the threshold states - India. Israel and Pakistan - are any more "rogue" than the established nuclear states (including China). The problem of "rogue states" should be dealt with directly rather than by the illogical nonproliferation regime.

The outhor is James S Cale man professor of international development studies. University of California, Los

LETTERS TO THE EDITOR

Germany has mountain to climb to Accusations reverse structural unemployment

Prom Dr Jens Bastian Sir, Your interview with Gerhard Schröder ("Gernany's moderniser", May 11) highlights the need for a "new consensus" on labour market policies in Germany. A country which has more than 4.4m people out of work (April 1998 data), with unemployment levels reaching 20 per cent in eastern Germany, needs new jobs as much as it requires comprehensive reform of tax regulations and labour legislation. The proposed Alliance for Jobs constitutes part of such an endeavour. It is more than trade unionists sitting with government representatives and employer associa-tions "over sandwiches and beer brokering deals in

member firms would honour the contractual alliance. The revised Alliance for wine in new bottles". But in order to make the alliance work, and thus create employment opportunities, a whole range of conditions Schröder's proposal seeks

creation commitm

to revive an idea that briefly alliance is conditional on tax reloain, curishing corporate caught the imagination of decision makers in 1996 taration and personal income tax, advancing when Germany's IG Metal union proposed wage labour market flexibility in areas such as wage flexibility for those seeking jobs. restraint in exchange for job ents from the employers. The proposal had initial backing from working time diversific Chancellor Kohl, but never introducing pension reforms materialised because of disthat move away from an exclusive focus on pay-asagreement over the fine you go systems to car print (for instance reducing overtime work) and lack of tion schemes. The list suggests there is a mountain to climb if the German political commitment from employera' associations who could not guarantee that their

Jens Bactian Jobs proposals are not "old lecturer in German political Houghton Street London WC2A 2AB, UK

economy is to reverse struc-

The average that sets UK and Japan apart

M. El-Agraa. Sir, In your interview with do with conformity than Noriko Hama (From Office actual performance. She Lady to oracle", May 9-10), she mentioned that, when she returned to the Japanese education system, she falled despite her performance within the UK system and attributed this to the "state of British education". I presume she returned to Japan at the school level when she yman". must have had to attend a 'special school/class? for eturnees to be reintroduced to the system.

It is well known that most cation means that every Jap-

From Mr Terru Walker.

Sir, Like Roland Fernsby

(Letters, May 9) I flew from

London to Edinburgh in

early February but returned

on the same day. The flight

with KLM UK cost £98

return from London City

previous day. I did telephone

Airport and was booked the cost about £160 leaving early

actual performance. She could not have returned at the university level since, on the whole, Japanese undergraduates do not learn much average down is the nonacademically - university simply provides a breathing space from "the examination hell" before joining the demanding life of the "salar

well, but for reasons more to

voicing a deeply-ingrained misconception: a *Matier average* in basic edu-

EasyJet but was very

politely informed that the

chesp fares had to be booked

in advance - it quoted about

£69 single. BA and British

Midland quoted about £210

or about \$190 standby, Stan-

dard class rail would have

morning and returning the

Professor Ali returnees do not perform sness rates higher than the foreign (oversess) counterpart. Those familiar with both systems know that those who excel within the British system do so worldnance" of the British

That apart, Hama

wide; what pulls the UK perfor weak - the deviation from the average is almost zero in the case of Japan.

visiting professor of namics 1997-98. department of economic Vanderbilt University, partment of economic Nashville, TN 87312, US

same evening. It's true that

fare structures are compli-

cated but KLM UK will get

Fare's fair for travellers on this route

my custom next time I travel Terry Walker PO Box 22602. Rivedh 11416.

made in bank court case unfounded

rom Mr Michael G. Marsh. Str. I wish to protest most intensity at the accusations reported in your srticle, "UBS arm fined \$5m over currency deals" (May 9-10), made against me by Adv. Binnington on behalf of Can-trade bank in the Jersey courts on May 8. The accus tions are unfounded, most aging to my reputation, and have been made under

least of the Jersey courts. Unfortunately, I have been given no opportunity to espond to the sectous ellegations quoted in your news paper, made by the legal representative of a bank which itself has pleaded guilty to criminal charges and has been sentenced. Therefore, please allow me space to say that, unlike Adv. Binnington's client and Robert Young, I have never been charged with any offence, nor was I called as a witness in the criminal proceedings against Cantrade or Robert

Young.
I wish vehemently to say that there is no truth what soever to Adv. Binnington's statements concerning my involvement in the "corrupt arrangements" be said had taken place between an officer of Cantrada and the convicted trader Robert

I am an injured party and a plaintiff in the civil proceedings taking place in Jersey against Cantrade et al and I am a plaintiff in the RICO racketeering proceed ings taking place in New York against Union Bank of Switzerland, Cantrade et

Michael G. Marsh. representative office. 7 Chemin du Hameau, 1255 Veyrier.

Number One Southwark Bridge, London SE1 9HL Fex 0171 873 5938. Letters transmitted should be clearly typed and not hand written. Please set for firest resolution, e-mail: letters.editor@fi.com Published letters are also available on the FT web site, http://www.FT.com

Saudi Arabia

TTTT multi-currency check receivable securitization deal in the world?

al A Japanese bank in New York b) An English bank in Singapore e) An American bank in Tokyo d) None of the above

The right choice is "d"; which should read "a global bank in Turkey". The bank which issued the first 144A Eurobond, the first IFC B Type Securitized Loan application and the first US Commercial Paper from Turkey. Garanti Bank in short. Wouldn't you invest in a bank, where all the benchmark transactions come from?

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ECONOMICS NOTEBOOK GERARD BAKER

Unusual danger signs

omorrow the 12 voting members of Federal the Reserve's monetary policymaking open market committee will gather for their third meeting of the year. They do so as a rising chorus of economists is warning that the US economy is in greater inflationary peril than it has been since the present upswing began more than seven years ago.

The danger signs are not

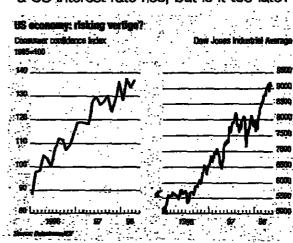
in the familiar places - consumer price inflation is

dwindling gradually to zero; wholesale prices have been falling on and off for most of the last year - but in the remarkable run-up in asset prices or, to be precise, in the stock market, where prices have risen by 25 per cent in the past 18 months. Investors seem to have ignored profit warnings, worries about Asia and traditional common sense and pushed valuations up to levels that all but the most bovine of stockbrokers belleve are unsustainable. As a result, some observers say the Fed's policymakers now need to abandon their long-established coyness about the stock market and raise interest rates to deflate the bubble before it explodes over the US economy. But should the Fed target

the stock market as an explicit goal of monetary policy?

Proponents of such a shift say look no further than the Javanese economy to understand the wisdom of a policy directed at over-inflated asset prices. The Bank of Japan allowed asset prices to rise to impossible levels in the late 1980s. Its eye was firmly and, as it proved, wrongly fixed on the performance of prices in real product, service and labour markets (as well as on the noney supply) - where inflation was largely absent.
By the time the central bank realised the danger and tightened policy, it was too late, and the economy crashed with the market. Japan is still suffering the effects of that failure with a precariously weak financial system that is preventing a full recovery of the economy.

The Japanese experience highlights the two principal oncerns raised by a scaring Wall Street's strength is prompting calls for a US interest rate rise, but is it too late?



set market. It is not just that, eventually, the market will fall, damaging the economy. Before that happens, there is the risk that higher prices feed through into buoyant consumer and corporate confidence - prompting individuals and companies to borrow on the strength of a rising market. Consumers feel wealthy enough to get deep into debt to buy fast cars and expensive holidays, while companies borrow to open expensive new plant or buy other

It is important to remem-

Raising interest rates to bring down equity prices is like using an iceberg. The ship's progress is stopped, but at some cost to passengers and crew ber that, in the Japanese case, the principal problem stock market fell over the was rising property prices, less so share prices, and Japanese consumer and corporate spending did indeed rise

sharply between 1985 and There are some signs that the same spending surge is under way in the US. Conyear high; and spending is robust. The current dual enthusiasms among companies for information technology-related investment and buying other companies is a sign that some questionable decisions are going

But debt - the Achilles

the Fed to act now. If the next year by about 10-15 per cent, the relatively low levels of debt might ensure that the overall economic impact of a fall in equity prices would not be so great. Few would doubt that it was the size of the Japanese debt problem, rather than the fall asset prices per se, that If the Fed could enginee ch a smart move with debt still under control, it might

heel of any expansion - has

still not exploded at any-

thing like the levels recorded

in Japan in the late 1980s,

the corporate level.

either at the individual or

For example, individual instalment debt has, it is

true, reached an all-time

high at more than 20 per

cent of income. But the bulk

of that debt is accounted for

- where debts are paid off

Curlously enough, this

could be a stronger case for

be able to avoid a repeat of But here is the problem: how does the central bank, even assuming it believes share prices to be 10-15 per

cent too high, bring about a

Raising interest rates to avert inflationary pressures in the real economy is a slow process. It has been compared with turning a vast ship around at sea. Raising interest rates to bring down equity prices is like using an iceberg. The ship's progress is stopped, but at some cost

to the passengers and crew. The effects of a policy targeted towards equity prices could be greater than the underlying problem. Worse still, should a sharp fall in stock prices occur, the Fed would have to go into reverse gear, dramatically easing policy. This is what it did after the 1987 stock market fall, an event that messed up the monetary policy framework for several years afterwards.

That is why the Fed has been so reluctant to back up its cautionary words about the stock market with

But all the talk about a Fed move to pull down the stock market by a few hundred points may soon prove

by increased credit card use At some stage, it seems each month, and is not "pure" debt. almost inevitable that Alan Greenspan and his colleagues will have to raise benign behaviour of debt interest rates in any case. Not because of the stock market, but because of the strength of the overall economy. Stretched labour markets – an unemployment rate of just 4.3 per cent - are clearly putting renewed upward pressure on

Even more troubling, the productivity improvements of the past two years which had until now enabled companies to pay higher wages without putting up prices - may have dried up. Figures published this month for the non-farm business sector showed overall productivity up by just 0.2 per cent in the first three months of the year, while unit costs rose 2.2 per cent Unless the chill winds still blowing from Asia significantly cool the torrid US economy in the next few months, the Fed has indicated it will have to pour some cold water on it.

Only then, when the stock market reacts, will it become clear whether or not the central bank has acted too late.

FINANCIAL TIMES

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Monday May 18 1998

Time for change in Indonesia

streets of Jakarta over the weekend marks a respite, not an end to the crisis that threatens President Suharto. Indonesia still seems a nation headed for disaster, and the ineffectual response of the Birmingham summit has done little to help.

Leaders ducked the opportunity to encourage him to make an orderly exit before the damage grows even worse. Their reluctance is understandable. The lack of a successor means there is a risk of even greater chaos without Mr Suharto.

Yet much is at stake. Because of its position straddling shipping lanes vital to world trade and energy supplies, Indonesia matters to global security. Because of its \$136bn foreign debt, it matters to world finance. Its 200m people are the world's fourth-largest population, and in riots and demonstrations across the country reform would calm the popular they have left the world in no doubt that they want their ageing dictator to leave. The world cannot afford for Indonesia to this course is easy. Indonesia has flounder in anarchy, hunger and

circumstances it will take years for Indonesia to recover from the panic exodus not only of money but of expatriate personnel as well as local Chinese who form the backbone of the economy.

The calm that returned to the Suharto remains in office. He revitalisation of the Continent's may have bought himself some time by returning from Cairo just as the riots were playing themselves out and appearing to restore order. But violence will almost certainly flare up again. Vague promises of reform and cabinet reshuffles will not restore investment flows or reverse the tide of popular revulsion for him

and his family. The real question is how to manage the transition. The ambivalence of the army towards the looting has weakened the standing both of the military and its leader, the moderate General Wiranto. The process of finding a new president may now become all the harder. The first priority must lie in establishing an orderly transitional arrangement. There has been talk of a coalition council that could oversee the selection process. Promise of real mood, and such a line deserves

strong international support. There can be no illusion that no natural sense of unity. There are strong rivalries in the opposi-That is undoubtedly what faces tion and few natural leaders. Ini-Indonesia now. The International tial attempts to form a transition Monetary Fund rescue pro- council have already proved diffigramme, which was supposed to cult. Indonesia is in severe danbe the cornerstone of efforts to ger of becoming the world's largrestore confidence, is shot to est basket case. Only if they can pieces. Even under the best of summon up the discipline to search calmly for a new leader is there a chance of pulling back from that brink. It is clear after last week that there is absolutely no long-term prospect of recovery if Mr Subarto remains in office.

Trust is at a nadir. It clearly True friends of Indonesia cannot cannot be rebuilt while Mr pretend otherwise. Japan's rates

With Japan's official discount tation of rising prices would rate at a paltry 0.5 per cent, dis-induce consumers to bring their cussion of a rate cut might money out from under the matappear academic when the policy tresses and start spending. The Bank of Japan meets on Tuesday. With an economy on the brink of recession, a case can be made for a cut in the nominal rate.

Yet Japan being Japan, the loudest plea in the public debate, which comes from the politicians, is not for a cut but an increase. The politicians are keen on an

increase because it would boost the income of Japan's savers. As well as winning votes, this could boost flagging consumption. Others argue that it would help to boost the yen.

The debate is hotting up. But, in fact, these arguments miss the point. The challenge for Japan's falling yen - and a rising exterpolicy-makers is to give an infla- nal surplus - may simply be the tionary boost to an economy in price the world has to pay for the grip of disinflation. An expec- recovery in Japan.

Low interest rates alone will

not help. Japan's banks are still fragile and are reluctant to lend whatever the interest rate. If the Bank of Japan wishes to run an expansionary monetary policy, it will have to inject money into the economy itself. This means very large-scale purchases of assets. including bonds and equities, from the private sector.

Of course, this strategy would also exert a powerful downward influence on the yen. A much more expansionary fiscal policy, desirable in itself, would offset this, but is not yet in prospect. A investment institutions

As the big companies grow more international, stock funds in many countries have exchanges are becoming aware that the need to carve out a role in the cross-border markets of the future is more pressing than their traditional focus on their domestic empires. For example, co-operation between the Paris and Frankfurt bourses, and their 'become "domestic" for institu- tor's point of view. "Dutch pen-

Europe is upstaging Wall Street, and the euro offers investors hope for even more vigour, says Barry Riley

Aim for bourse without borders

The share of things to come

ding the UK is up 28 per cent in dollar terms - nearly twice Wall Street's gain. This sparkling performance has focused renewed attention on the potential of the historically unexciting Continen-Hopes are high that the euro will provide the trigger for a \$879.8bs fragmented capital markets. At the very least, the single cur-6373.8bn shake-up in the operations of (\$455,8bm) says Mark Brown, strategist at balance and reorientate their portfolios. "It will be the mother Potentially, there is more. At erated from the shackles of

Continental European privatisations. Consider the example of Germany's Daimler-Benz. Until only a few years ago, it was a eration. But now it has been reciently self-confident to launch,

as the dominant partner, a merger with America's Chrysler. But what about the mediumsized and smaller company sec

tors? Germany's Mittelstand of privately-held companies, for instance, has traditionally been a vital part of the country's economic strength. More German companies are going public than in the past, but across Europe the smaller companies are of comparatively little interest to interna-

hares on Wall Street may have been gliding ever

upwards, but recently

European ones have been

doing even better. So far this

year, the index for Europe exclu-

rency will lead to a profound

stock exchanges and financial

"A broker's life will change

more over the next two years

than at any time in the past'

ABN Amro. And Jan Mantel,

chief investment officer for

Europe at Dresdner RCM Global

Investors, says funds across

Europe will be forced to re-

of all programme trades," he

best, the European corporate sec-tor could be modernised and lib-

nationalism and political interfer-

ence. The biggest prizes could go

to Europe's corporate giants,

which have already seen their

share prices multiply under the

impact of global investment flows

sector of leviathans is also being

expanded through the wave of

near-basket case of muddled flag-

carrying and industrial conglom-

invented as a shareholder-

friendly multinational suffi-

much of it from the US. This

tal European bourses.

Thus a two-tier European corporate economy seems to be developing. Some 200 to 300 big the foreseeable future the smaller company sectors are likely to remain primarily local and domestic - although exchanges such as the Brussels-based Easdaq are attempting to develop a Europe-wide new company market in the more glamorous and international sectors, nota-

bly technology. The separation between international and domestic was on display in the UK last year when the FTSE 100 Index, packed with multinational blue chips, returned a growth rate of 29 per cent while the corresponding 250 Index of middle-ranking stocks rose only 10 per cent. The shift wrong-tooted many of the big UK

has dominated international

Flagship national equity mar-CAC 40 and the FTSE 100, face a up the pan-European market. For others five. The race is on to design and promote the Europewide index to replace them; contenders so far include FTSE's Eurotop series and Dow Jones's Stoxx indices, while Standard & Poor's has a product almost ready for launch. Which index will flash up on

21st century TV screens across Europe, as a snapshot of the day's stock market progress? We should get an early indication of the winner from the performance of the various new futures and options contracts to which these pan-European indices are being

Meanwhile, the euro poses a direct challenge to Europe's labyrinth of nationalistic controls on investment institutions. Insurance companies and pension been constrained to invest in domestic assets, rather than foreign ones, and restricted in their ability to hold equities rather than bonds

form Euroland. This will immediately open up the bond markets. And it is expected that crossborder demand for equities will ket indices composed of market increase too, as institutions leaders, such as the DAX, the become more international and governments respond to the increased funding of future

> pensions. that the big winners will be the

Companies and investors are likely to emerge as winners - with help

from the euro

Americans, who are used to seeing Europe in the round, rather than the Europeans themselves who will continue to be limited by their lack of perspective. Arguments are going on, for instance, about whether Europe should be carved up for investment purposes into euro and noneuro segments, and European

Union and non-EU territories. But from January 1 next year a coherent economic entity? Not The big investment banks are much wider choice of assets will necessarily from the global investment banks are themselves well ahead with

derivatives equivalents, is put-tions in the 11 countries that will sion funds don't want to exclude ting pressure on London, which form Euroland. This will immedi-Switzerland, with its big pharmacentical companies." says Mr Mantel of Dresdner RCM. So investors are inventing their own economic geography; they talk about "Pan Europe" (the whole EU, including non-European eco-

13.5% of E 17

way) or even "Extended Pan There are worries in Europe Europe" (which includes some countries to the east).

Borders are becoming fuzzy. Stock market analysts are currently fascinated by the decline of country and the rise of industrial sector as influences on share prices. A pointed example of this shift came last month when the London-based fund management group Foreign & Colonial decided to wind up its German Investment Trust and merge it into a

sister Pan Europe fund. A Brussels firm, European Benchmarks, says four European stock market sectors can be identified: pharmaceuticals, financials, oils and consumer brands. Others are emerging as national influences fade. But investment banks conducting similar studies have come up with conflicting results: ABN Amro thinks chemicals is the most coherent sector. but Goldman Sachs cannot make

Does Euroland represent a the correlations work at all well.

gies vary. ABN Amro executives have just embarked on a global roadshow, emphasising the Dutch-owned institution's resources in 19 European countries. The big US investment banks tend to be more concentrated in London, from where their analysts cover the developing European megastock sector.

Investors, though, are lagging behind. Only a handful of London's big fund management houses have attempted to integrate their UK and European teams. Jeremy Tigue, manager of the giant Foreign & Colonial Investment Trust, a global fund. puts forward the typical waitand-see argument. "It would be premature to merge the UK and Europe until it is evident whether the UK is going into Emu." he says.

According to Adrian Paine, senior portfolio manager for Europe at American Express Asset Management, US-owned managers have therefore been able to steal a lead in the Pan Europe stakes while rivals squabble about domestic versus the rest of Europe. "It's a fantastic opportunity for us," he says, claiming recent strong performance. "We just focus on the larger stocks where the change is going on." Amex's 320-stock European universe cuts off at a minimum market capitalisation of \$2.5bn (£1.5bn).

For European corporates, the surge in share prices promises a reduction in the cost of capital. and the opening up of a eurodenominated bond market will bring important benefits too. But there will also be costs of adaptation to this effective Americanisation of the capital markets.

Much depends on the acceptance by European politicians and company executives of concepts of "shareholder value". US investors have substantial aggregate stakes in the leading Continental markets, and UK institutions have some \$250bn invested across the Channel. They are inclined to flex their muscles and insist that companies are run to benefit shareholders - which is still a controversial subject in several European countries where banks and trade unions have been much more important

stakeholders. Attitudes to equity buybacks, for instance, still vary, although obstructive German legislation is shortly to be changed. The acceptance of mergers remains patchy: they have become important in Switzerland, but Europe-wide cross-border rationalisation in sectors such bers. plus Switzerland and Nor- motors, though badly needed, remains noticeable for its near absence. And defence industry restructuring, plagued by flag carrier considerations, has proceeded at a snail's pace in Europe

compared with the US. But there is scope for progress. American investors, having given up on east Asia, are pinning their hopes on Europe to accept the baton from a tired Wall Street. "Changes in government, corporate and investor behaviour are likely to combine to raise the average valuations in equity markets in Euroland," says Mike Young of Goldman Sachs.

For the time being, though, Europe remains characteristically divided. Half of its stock market capitalisation is outside Euroland, Currency exposure will remain a problem in the UK. Switzerland and elsewhere. French socialism is a significant and obstructive force.

Battles remain to be fought. But when they are engaged, companies and investors are likely to emerge as clear winners - with a

Golden jubilee

which marks its 50th anniversary this week, is one of the most remarkable creations of the postwar era. By sweeping away protectionist barriers, it has contributed immeasurably to international prosperity and stability. paving the way for a more open and integrated global economy.

Government leaders and ministers have every reason to celebrate those achievements at the World Trade Organisation meeting which opens in Geneva today. But entrenching the gains of the past half century requires clear objectives for the future.

The biggest danger lies in asking the WTO to do too much. It is already committed to negotiations soon on agriculture and services, which may blossom into a

trade round. Other tasks include investment and competition policy, and dealing with environmental and labour standards. All these matters are conceptually complex. Most are politically contentious. None will be easily resolved.

The pressures to expand the WTO's agenda reflect its increasingly central importance as a forum for global economic management. But it cannot be expected to resolve every issue of concern to its members particularly if they continue to limit its budget and resources to niggardly levels. Unless governments agree realistic priorities. the system may become overloaded and its effectiveness

What should those priorities be? One is to concentrate on targets that can yield the biggest economic gains in relation to the effort needed to achieve them. Freeing farm trade is clearly one. must do more than pay lip sermission must remain the removal They must ensure they are lived of market barriers. Attempts to up to at home.

labour rights issues often seem aimed at restricting, not liberali-

The US and some other countries say the WTO must respond to concerns about such issues if free trade is to command popular support. However, the main reason environmental and labour lobbyists are pressing their case so hard in the WTO is that other forums have falled to deal with it adequately. The answer must be to create institutions better equipped to deal with such demands - not to confuse them

with trade policy. That is not to deny that the general public has a right to know more about how and why trade policy decisions are reached. The WTO needs to do more to make its activities transparent and explain them to the outside world.

But governments must take prime responsibility for sustaining public support for trade liberalisation. They will not succeed by appeasing protectionist lobbies, whatever their guise. instead, they must persuade electorates that liberalisation is in their interest. Bill Clinton's failure to do so was the main reason for his inability to win fast track renewal last year. That should be a warning to leaders elsewhere. Unless they make the case for free trade more boldly, they risk surrendering the high ground to its opponents and inciting resis-

tance to globalisation. They do not lack for arguments. These will, doubtless, be eloquently expressed in Geneva this week. But if the multilateral system is to prosper in the new millennium, political leaders Above all, the WTO's central vice to high ideals while abroad.

Junior's

Time is running out for Luxembourg to appoint the head or its first central bank. The tiny European state hasn't needed a central bank before as it

doesn't have its own money to run - It is in a currency union with big brother Belgium next door, But under the European Union's Maastricht treaty, it has to have a central bank by June 1 if it's going to join in the new single currency. It appears that prime minister

Jean-Claude Juncker faces a

dilemma in choosing between two eading candidates for the job. One is Jean Guill, long-time director of the Institut Monétaire Luxembourgeois - the nearest thing the Grand Duchy has to a central bank - who comes from Juncker's political camp, the Christian Socialists. The other is Yves Mersch, the treasury director much respected in EU financial circles, who is aligned with the Socialists, the other party in the Grand Duchy's ruling coalition.

It's a tough one for Luxembourg's young premier by Germany's Chancellor Helmut Kohl - who has made something of a name for himself as a skilful operator in the EU. If he appoints Guill, he'll be attacked for malding a political appointment. If he picks Mersch, some of his party might

candidate could be appointed with a proviso that he steps down after a few years to let the other take over. On second thoughts, it's such a silly idea nobody would

Vague sanction

So just what does President Bill Clinton have in mind for sanctions against India? There has been much broad-brush outrage since the nuclear tests, but little detail. The relevant bit of statute - the Glenn amendment, which is getting its first run out - says the US must terminate bilateral assistance to India, stop credit and guarantees by any government agency, and

prohibit US commercial bank loans

to the Indian government. US commercial bankers in India doing business with state-owned enterprises would like to know what that means for them. So would US investment houses acting as lead managers for India's distrivestment programme. The US embassy hasn't been much help, and officials say it will take lawyers in Washington weeks to figure out

what the sanctions will actually Until the foo lifts, the Indians are accusing the US of hyping up the sanctions. The White House says the tests might jeopardise \$21bn in aid, grants and loan credits, indian officials quote \$1.4bn - the funds

already in the pipeline. The US does have the grace to admit that it isn't really sure of the figures, noting in a press release

that "final numbers will depend on legal determinations as to the precise scope of the sanctions." Whenever that might be.

In the picture

OBSERVER

The top cats at Sotheby's and Christie's have been heard to moan into their Moët that the new rich just aren't interested in art they prefer to waste their wealth on fripperies like horses, houses and yachts.

This may be changing. At New York's sales last week, new money, led by Microsoft co-founder Paul Allen, seemed to be chasing pictures: he was said to be the buyer, for \$12m, of a Monet view of Venice. With Wall Street looking a little shakier, Sotheby's and Christie's think more spere cash will be along this

The last art market boom ended in 1990 with a tremendous crash. Speculators, mainly Japanese, were left with hundreds of surplus paintings some of which, like the Monet, are only now regarded as saleable again.

This time round, the new buyers are taking good advice. Allen is advised by David Nash, former paintings supremo at Sotheby's. Nash's wife Lucy Mitchell-Innes, once Sotheby's contemporary art specialist, was the buyer of the \$17.3m Warhol on Thursday on behalf of a private client.

Simon de Pury, who quit as chairman of Sotheby's Europe last year, paid \$3.6m on Wednesday

for a Bonnard, while James Roundell once of Christie's, ensured that Phillips' first main auction in New York went well by paying \$2.7m for another Venetian Monet. Buying with other people's money sure beats trying to sell to

Au pair

Most of the Atlantic liners have long since steamed off to the scrapyard, but Liverpool - the depressed port in northern England - has a notion of holding on to a link with New York. It wants to twin with the Big Apple, which is already twinned with Jerusaler Apparently state governor George Pataki is keen, and an approach has been made to mayor Rudolph Giuliani.

The home of the Beatles claims to be New Yorkers' most requested UK tourism destination after London. There's a strong bond between New York and the Fab Four: John Lennon lived in the Dakota Building overlooking Central Park for several years until his death, and part of the park was renamed Strawberry Fields in his honour.

Last year, Liverpool appointed a tourism ambassador to its old trading partner - and who better than Sid Bernstein, the impresario of the 1969 Woodstock festival. Four years earlier the New Yorker was the first to take the Mersey Marvels across the pond and set up their first US concert in New

Financial Times 100 years ago

Coal And The Spanish-American Wa In modern warfare, as the events of the past month have proved, it is quite as important for combatants to keep their coal bunkers well filled as to keep their powder dry. The news that came from Sydney yesterday suggests that the United States are apprehensive as to their home supplies of fuel proving inadequate, for In April San Francisco took 27,000 tons of coal from Newcastle, New South Wales, and this month arrangements have been made for the shipment of 150,000 tons. Purchases on so large a scale by a great coal-producing country are by no means without significance, and to the extent to which they benefit Colonial trade they are certainly Věry weicome

50 years ago

Canada Trade Protest The Canadian Exporters' Association has asked Mr. C.D. Howe, Minister for Trade and Commerce, to take steps to stop the "alarming" drop in exports to the British Empire. "Canada's export policy is apparently aimed at building up a United States dollar surplus by directing our exports to hard-currency countries," the Association said.





THE LEX COLUMN

Clash of the nerds

This is the big one. Barring a miraculous reconciliation, Microsoft will wake up today embroiled in the biggest antitrusi case since the break-up of AT&T. Will this also be Wall Street's wake-up call to the risks this legal battle carries for one of its favourite stocks?

So far, Wall Street seems to have shrugged off the threat. After all, Microsoft has had several brushes with the competition authorities and survived them rather well. The company's experiences in court have not obviously slowed down its ability to innovate.

But the US Justice Department's expec ted antitrust charges have the feel of something altogether more serious. First, they are being brought by a department which, under the vigorous hand of Joel Klein, is emerging as increasingly activist and confident.

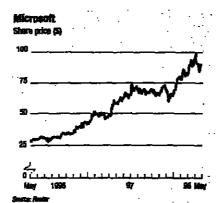
Second, the charges appear to be broader than any faced by Microsoft yet: the company stands accused of abusing its market power.

It is too early to start predicting outcomes. But consider the following risks first, that fighting the legal battle this time undermines the company's ability to compete. IBM's experience stands as a stark reminder. Second, on a worst case scenario, it could lose, and be forced to operate its applications businesses separately and at arm's length from its operating systems business. This would amount to a virtual break-up of the company. Wall Street should take note.

Mannesmann

For what purports to be basically a capital goods company, Mannesmann is some-thing of a stock market wonder. Its shares have outperformed a sprinting German market by more than 30 per cent since the start of the year. Embarrassingly, however, its stellar performance has less to do with its sluggish automotive and engineering businesses than its strengths in a liberalised European telecommunications market.

On the face of things, Mannesmann is still crying out for more radical treatment. Its engineering business, which is forecast to account for nearly DM17bn or and Benelux. The cost-savings - played 40 per cent of 1998 sales, has operating down of course - will help combat intense margins of less than 2 per cent. And the competition in an over-endowed industry.



automotive parts business is only slowly recovering. Without the telecoms unit's returns to shield behind, these industrial s would have trouble attracting

At current share price levels, a full demerger of these divisions would be unlikely to enrich shareholders. But other moves that sharpen up margins should be pursued. Joint ventures in tubes and now also in defence - with Kranss-Maffei's tanks business taking a junior position to Wegmann, its battlefield taxi pariner are an encouraging start. A complete exit from these low return busines be even better. Promising investors a more focused group should give them confidence in signing up to the forthcoming DM3bn capital increase.

European insurance

Ask a European insurer what difference the single currency will make and the answer tends to be: "Not a lot." Insurance is so intimately related to local tax and social security regimes that it will take far more than the euro to harmonise the market, so the argument goes. But the level of deal-making suggests that the latmobile telephony and growth prospects in est reduction in national barriers is acting as a catalyst to change. Take Allianz's takeover of AGF, the related Generali/ AMB deal, and Axa-UAP's move on Royale Beige: all allow immediate rationalisation of operations in France, Germany

But the cross-border deals also show how Europe's largest insurers, approaching saturation presence domestically, now regard the euro-sone as their backyard. It leaves them well placed to develop prod-ucts that will eventually be sold across

This will probably be in long-term savings at first, backed by the internation-alisation of fund management. That in turn is being fanned by the reduction of currency risk and the growth in equity

investment on the continent. The cross-industry deals pursued by the Dutch and Belgo-Dutch financial services groups, ING and Fortis, also point to accelerated change in the way financial products are sold.

Indeed it is surprising how much scenticiam remains about bancassurance, considering how widespread it already is. The question is whether vertical integration between the insurance producer and the bank retailer will pay off better than a looser range of distribution agreements. The main concern about financial services conglomerates is the complexity of their management, especially if the stretch is geographic as well as industrial.

The tests will be the same as for other multinationals: how effective is head office at setting strategy, disseminating best practice and imposing financial disci-

Although the euro-zone deals have considerable logic, it is a difficult bandwagon for outsiders to jump on. Financial services company prices are generally high in Europe, but the risk of overpayment has been limited in recent deals. Either the hidder already had a stake - deterring rivals and reducing the overall cost - or there were cross-holdings to barter with. In other words, several companies had sown the seeds for cross-border consolida-

Against this background it is no surprise that UK and Swiss groups have gone for domestic mergers and the transationtic option - the Zurich/BAT financial services deal - is partly about the latter.

In fact most of the deals are defensive rather than expansionist. The insurance industry's story of overcapacity aggravated by additional competition from new entrants is well known. With national barriers being whittled away in Europe, the urge to merge is unlikely to abate.

Clinton offers investment to woo Ulster doubters

Attempt to win strong Protestant backing for peace deal

By Devid Wighton in Disminghists

President Bill Clinton and Tony Blair, the UK prime minister, yesterday held out the prospect of a surge of inward investment into Northern freisnd in a last attempt to persuade doubting Protestant voters to back the peace deal.

The offer comes as the province faces a historic referendum on Priday on constitutional changes agreed at Easter. They aim to end 30 years of violence.

While an overwhelming majority of nationalists are expected to back the agreement, an opinion poll pub-lished last week showed that a majority of the unionists who had made up their minds intended to vote against. Unionist misgivings have been growing over issues such as the early release of prisoners and the absence of progress on decommissioning terrorist weapons.

Launching final campaigning before the referendum, both leaders stressed that peace and prosperity would go hand in hand but that the

bleak without a strong Yes vote. in a joint television interview with Mr Blair, President Clinton said there would be increased US investment if the process continued. But the people of Northern Ireland had "a great deal to lose" if they walked

Mr Blair said the government would "have to stand ready to pick up the pieces" if the vote were No. But the agreement was the only serious way forward for the province. "I have still not heard from anybody what the alternative is. It is

not the status quo." he said. He conceded that the Yes campaign had suffered a serious setback when terrorists from the Irish Republican Army, on temporary release from prison, received a standing ovation at a Sinn Fein

rally. -"I am not in the least surprised at the public revulsion because it is revulsion I share myself. But that isn't a reason for rejecting this agreement," Mr Blair told a press

prospects for the province would be conference at the end of the GE summit in Birmingham, England.

But Mr Blair said the polls suggested many people were still undecided, who would vote in favour if they were reassured on issues such as decommissioning and the carly release of prisoners. "We have got to use the last few days to lay that concern to rest," he said.

The Yes campaign is expected to receive a boost this week when Warren Porter, a former leading member of the Protestant Orange Order, calls for a Yes vote. The order, a unionist movement with 60,000 members, has refused to endorse the deal - in spite of an attempt by Mr Blair to win it

The British prime minister will visit Northern Ireland again on Wednesday, taking a high proffle in the run-up to the referendum after people of the province, said Downing Street. During the summit Mr Elstr lobbied other world leaders over inward investment to undergin the

Indonesia tries to restart ailing economy as wave of riots subsides

Indonesia's banking system is due to reopen today as the government tries to restore order and restart the economy after a wave of rioting that threatens President Suharto's grip

While quiet returned to the streets of Jakarta and some shops resumed trading vesterday, riots flared in other cities over the weekend. Bankening economic crisis after the disorder, which has left 500 dead in and

around the capital. "The quiet is not calm. It is a state It follows the announcement last Friof shock after the violence of last day of a reduction in the fuel price week," said one diplomat. He added that National Awakening Day on Wednesday, the anniversary of indonesia's first anti-colonial movement, could provide a focus for

renewed prote charge, Mr Suharto said he would buffle his cabinet and called for

Bank Austria

ment from the military said more than 1,000 had been arrested since riots intensified last week, bringing the capital to a standstill and prompting an exodus of foreigners. Many in Jakarta blame the military for failing to stem the unrest, and it has apologised. "ABRI apologises to all sections of the nation...for the conditions that exist at the moment," a statement said. "ABRI is ready to risk all its ers and diplomate warned of a deep-credibility for the return of security and peace." Diplomats said Mr Subarto's proposed cabinet reshuffle

was intended to signal his flexibility.

increases whose introduction at the start of last week triggered the But pro-reform intellectuals, former ministers and officers who met at the University of Indonesia on

Subarto was merely trying to buy

time, "It is too little, too late," said

tough action against rioters. A state- Frans Seda, a former finance

Student leaders pledged to resigner their protests this week. "The students have not lost guts." said Hakim Hatta, leader of the Pijar

International pressure on Jakitta mounted over the weekend, with the meeting in Birmingham, England, of the Group of Eight leading industrislised countries urging political reform. Many governments are arranging for their citizens to be

The US dismissed suggestions that reforms required under a \$42bn International Monetary Fund programme had caused Indonesia's social explosion.

The Asian Develorment Bank is to decide today whether to proceed with a loan to Indonesia. Malaysia said it would go ahead with a \$250m bridging loan.

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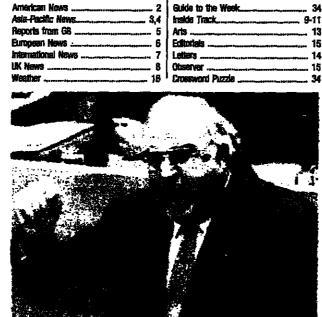
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Surveys

FT WEATHER GUIDE



Features

ing for the magic; German chancellor Heliput Kohl will today try to the flagging compaign for an unprecedented fifth term, Page 6

Europe today

Countries and France will have plenty of sunshine. After a fine start, Germany and the east

Alps may have showers, but these will be well scattered. Northern Scandinavia will also be showery There will be thundery rain across

the Mediterranean. The east will be unsettled, but a few thunders showers are also likely across interior parts of the Iberian

peninsula. The Balearics and the

Europe will keep it dry and sunny. rever, as a low pressure

south coast of France should remain dry and mostly sunny.

Five-day forecast

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OSKOL ELECTROMETALLURGICAL KOMBINAT

Stary Oskol, Belgorod Region, Russian Federation

USD 120,000,000

Long term loan for the modernisation and capacity expansion of the rolling mill

USD 110,000,000

European Bank

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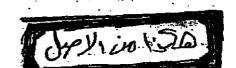
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USD 10,000,000

PARALLEL LENDER International Moscow Bank







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FINANCIAL TIMES

COMPANIES & MARKETS

ÇTEE FRANCIAL TEES LIMITED 1998



INSIDE

German insurer aims for dominance The approach of European economic and monetary union has caused a struggle for market share among the continent's principal insurers. With premium income of DM110bn (\$60.4bn) Allianz, Germany's biggest insurer, is emerging as one of only a few European companies capable of dominating a single market in insurance, Page 20

Lafarge to tap eurobond market Laterge, the French construction company, will join a growing list of big-name borrowers when it taps the euro-denominated bond market this week with an E500m offering. The bond is seen as a minor landmark by bankers at Paribas, which will leadmanage the issue. Market Movers, Page 19

Dollar faces testing week

The dollar begins the week on a vulnerable footing, it has been raily ing against the yen and D-Mark in spite of growing evidence that the European economies are accelerating. The dollar faces another test the day after the Fed's trade deficit for March is revealed. The D-Mark

could benefit from more strong German economic data, which are expected throughout the week. Currencies, Page 24

Indonesia crisis troubles investors The return of positive sentiment to indonesia is not just a question of President Suharto standing down. A new head would still inherit a weak economy, instability could spread to indonesia's neighbours and, worst of all, a political breakdown creates the possibility of indonesia defaulting on its overseas debts. Emerging Markets, Page 21

Trafford Park's merger plans upset After spurning overtures for 30 years, Sir Neil Westbrook, chairman of Trafford Park Estates, has finally put the UK property group into play. But its roused the interest of what is now a hostile party, Green Property of Dublin. Page 18

Japanese bond market sees surge While leaders of the G8 industrial nations worry about the record equity prices being recorded in the US, on the other side of the Pacific another striking market surge is under way - in Japanese government bonds. Government bonds, Page 20

COMPANIES IN THIS ISSUE

16,20 KCE Bectrocics 18 Kingfisher Multi Bintang NTT PITEP Delta Electronic Portugal Telecon PowerGen Dresdner Bank DuPont Echlin Royal & Sun Alliance Electricity Ger Ericsson Federal Express

MARKET STATISTICS

MONDAY MAY 18 1998

BELGIAN BANK WILL BECOME ONE OF EUROPE'S TOP TEN FOLLOWING AGREED \$11.1BN ALL-SHARE BID Fortis to merge with Générale

By Neil Buckley in Brussel Jane Martinsen in London

Fortis, the Belgian-Dutch financial services group, will announce this morning an agreed \$11.1bn all-share bid for Générale de Banque, Beleium's biggest bank, to create one of Europe's top 10 banks.

The move is expected to be quickly followed - possibly and financial groups as they today - by an offer by Suez prepare to face the European Lyonnaise des Raux, the French utility company, for the 36.6 per cent it does not already own of Société Génér- Belge" it has long pressed for,

Volvo, the Swedish automotive

supplier base by about three-

quarters in an attempt to drive

down purchasing costs and

The company, which sources

ar components from some 400

"tier one" suppliers, hopes to

reduce that total to about 100

Leif Johansson, chief execu-

latest step of the Volvo 2000

campaign – a strategy

announced in December to lift

productivity by 5 per cent a

year and increase annual sales

In an interview with the

tive, said the plans marked the strategy of focusing on two

by 10 per cent to SKr250bn tive industry following the

Financial Times, he said: "We posed little threat to Volvo. are not satisfied with operat-

ing margins at present and programme, the Swedish group

improve operating margins.

group, is planning to cut its

gest holding company. SGB is the leading shareholder in Générale de Banque with almost 30 per cent, and also has a stake in Fortis.

The banking merger, that will create a group with total market capitalisation of almost \$35bn, is one of the biggest examples yet of the quest for size among European banks single currency next year. It will give the Belgian government the "Grande Banque

rush of alliances, mergers and takeovers that have involved all Belgium's top eight banks. The Fortis/Générale and

Suez/SGB moves together will also change the face of Belgium's corporate sector, leading to two of Belgium's largest and oldest companies disappearing from the Brussels

The seven-for-three offer by Fortis AG, the group's Belgian arm, for Générale de Banque values the bank's shares at BFr24,783, a 14 per cent premium to Friday's closing price of BFr21,850, and values the

whole of Générale de Banque at BFr409bn. Fortis AG will announce a

BFr153 dividend for existing shareholders at the same time, to be paid before the deal is SGB and two other main

shareholders have already agreed to exchange their stakes in Générale de Banque, totalling 33.2 per cent, for Fortis shares.

Fortis AG has been advised by JP Morgan, while the Belgian-Dutch Fortis parent group was advised by Morgan Stanley Dean Witter.

erably simplify Suez-Lyon-Belgium, leaving it with a direct stake of about 25 per cent in the enlarged Fortis. It is expected to reduce this to about 20 per cent in the near future.

The restructuring is part of Suez-Lyonnaise's attempt to focus its activities on utilities, particularly the 50.3 per cent direct stake it will be left with in Tractebel, the fast-growing Belgian energy group, and to meet its pledge to double earnings per share by 2002.

to DuPont held up by competition inquiry

ICI sale

The planned \$750m sale of Tioxide, titanium dioxide subsidiary of Imperial Chemical Industries of the UK, to DuPont, US chemicals group, is embroiled in a protracted US competition investigation into its impact on European and

Asian markets. The sale of Tioxide's European assets to DuPont, scheduled for completion early this year, is part of a \$3bn deal, in which DuPont also acquired ICI's global polyester business.

The polyester sale was com-pleted on December 31, after clearance in both Europe and the US. But while EU competition authorities agreed to the titanium dioxide acquisition in October, the US has yet to follow suit.

ICI and DuPont had sought to avoid objections on competition grounds by selling Tioxide's 50 per cent stake in a North American plant to a third party.

DuPont's share of the US titanium dioxide market is set to rise, owing to Tioxide's established exports from Europe into the US, from 40 per cent to 44 per cent on completion of the deal.

However, the US Federal Trade Commission investigation is understood to have finished considering the impact of the deal on the US market. It is the potential global impact that has triggered a round of intensive negotiations

with DuPont. In Europe, DuPont's market share in titanium dioxide – the main pigment used in paints and plastics - is set to rise from 12 per cent to 35 per cent, and in Asia, excluding Japan, the group will command 39 per cent of the market,

with 22 per cent. The FTC is widely believed to be seeking a third-party sale for at least one of Tioxide's European plants. Within Europe, Tioxide's seven sites come via T&N. The UK com-the biggest shake-up in the more information under SEC have the capacity to produce pany's Ferodo subsidiary is a industry since the acquisition rules. However, the deal 435,000 tonnes a year of titaleading manufacturer of fric- of Allied Signal's hydraulic should buoy Dana by provid- nium dioxide. This compares with 55,000 tonnes at its partowned North American plant and 90,000 tonnes at sites in South Africa and Malaysia.

Titanium dioxide is one of few chemicals in the US subject to a consent decree. whereby anyone working in the industry must pledge not to engage in anti-competitive practices.



A Volvo S40 on the way to victory in the British Touring Car Championship at Brends Hatch yesterday Reuters

is switching from dual sourcing and purchasing, said sourcing to single-sourced car the new car would rely on 70 more responsible for preassembling component modules. Volvo is expected to no more than 150 suppliers. underline the benefits of that and, if you look into the strategy next week when it future, we could end up with launches its new S80 large car. only 100 suppliers across the Anders Franzen, Volvo Cars' division," he said.

vice-president for strategic

parts, with suppliers being fewer suppliers than the \$90/V90 range it is replacing. "On this car, we aim to use

In developing the \$80 - esti-

mated to have cost SKr30bn Volvo has farmed out development work and pre-assembly of sub-systems such as brakes and seating to single suppliers. Mr Franzen said Volvo hoped to forge deeper partnerleading to lower costs and

more efficient delivery and assembly times.

Federal-Mogul may halt brakes consolidation

Federal-Mogul, the US ensine brakes in a move to reverse the recent consolidation of the

automotive brake business. The move comes as Dana, a delivered separately. secret development work on a leading US components group, awaits approval for its \$3.5tm resisted the trend towards durable braking technology. planned acquisition of Echlin, modularisation and still tend Federal-Mogul and Dana are a car parts group with sub-

Dana the expertise to supply Dick Snell, Federal-Mogul's Automotive, one of the market Dana's plans for Echlin remain complete component "corners" chairman, said the possible leaders. The review, expected unclear, as the company has to car and truckmakers. Consolidation in the parts come via T&N. The UK com-

lux, the white goods manufac-

turer, said a lean supplier base

was a vital part of Volvo's

platforms in its car division.

"We are full of confidence

that this is the right route for

Volvo," he said, adding that

consolidation in the automo-

recently announced merger of

Daimler Benz and Chrysler

As part of the cost-cutting

parts group that owns T&N of industry has led to a sharp rise the UK, could start making in the use of corners. Such modules are assembled by one supplier but comprise parts for pads. However, Mr Snell world's multi-billion dollar suspension, chassis and steering that were previously T&N had also been conducting

to be supplied as independent also believed to have considunits for separate installation ered bidding for the braking Buying Echlin would give by the vehicle manufacturer. activities under review by ITT tive of the US. Details of engine bearings business.

expansion into brakes would revealed in an interview that

to lead to a sale, would trigger tion materials used for brake brake business by Bosch two years ago.

Mr Snell said he had declined to bid for the ITT operations because of price. Observers expect ITT to are to the aftermarket. receive strong interest from other big automotive suppliers, including Siemens of Germany and Tenneco Automo-

been prevented from giving ing braking technology and reinforcing its strong aftermarket business for automotive parts. About \$2.4bn of Echlin's \$3.6bn annual sales

Separately, Mr Snell said Federal-Mogul had made progress in identifying possible buyers for its thin-walled



SIMON DAVIES

Benefits in the east

With the agreement on the membership of the European single currency club, one of the most profitable games in the recent history of the regional capital markets has come to an end. But there could be more membership

interest rate, currency and bond yield convergence among the so-called Club Med countries, primarily Italy and Spain, brought enormous gains to investors, with Italian bond yields falling by 700 basis points - or seven percentage points - in the past three

The first wave of European economic and monetary union

members have effectively converged. And the pickings from potential convergence of a second phase of membership which may well include the UK. Denmark, Sweden, and possibly even Greece - are also getting a little thin. The

10-year Swedish government bond yields only 32 basis points more than Germany's. Further east, however, there are a raft of countries that are priced as emerging market debt, but have the potential to attach themselves to the coat tails of German economic credibility within a realistic

David Levey, co-head of the sovereign risk unit at the

credit rating agency Moody's Investors Service, says: "The next big question for the euro will be expansion to the East" The Czech Republic,

Hungary, Poland and Slovenia look like realistic candidates for Emu membership over a five to 10-year horizon, and they all have government bond markets. And the great thing about the desire to join Emu, as Italy demonstrated, is that it imposes a fearsome straitjacket on fiscal policy, one that is good for bond

Indeed, in the lead-up to membership, currencies would be expected to have informal links to the euro, providing

more currency and interest rate stability. Shorter-term yields on local

government bonds in these countries range from 15-25 per cent, 1,000 basis points - or 10 percentage points - higher than in Germany.

Of course, an enormous transformation is required for these countries to fulfil the requirements both for European Union membership and Emu.

It is easier for governments to be fiscally austere when annual per capita income is \$25,000, rather than \$7,000. And there is considerable political risk. Yields on Ukrainian eurobonds are 1,000 basis points higher than Poland's, demonstrating the potential

downside. Certainly, Italy and Portugal offered better credit ratings and less cause for political concern at the start of the 1990s than these East European countries have now.

But Sonia Gibbs, senior market strategist at Nomura International, argues: "For those countries whose

governments are keen to join the EU, there is little prospect of policies that are not favourable to investors. And the tangible benefits to these countries of EU membership They are not laden with the

same debt levels as Western counterparts such as Italy and Belgium. Budget deficits are. with the exception of Hungary well short of the Maastricht. hurdle of 3 per cent of gross domestic product, and that is without the accounting tricks pursued by some of the Emu

Inflation has also tailed down considerably in these countries and is not far off the levels of the Club Med countries before the last recession. And trade is already highly integrated with the Emu zone.

Mr Levey also points out: "From the point of view of the French or German political leaders, these countries offer less of a competitive threat if they are brought inside." They also offer the attractions of a new frontier for investment.

while they are such a small part of Emu GDP, that the cost of inclusion should not be an enormous impediment to membership. Of course, there are

echnical hurdles for investors to leap as well. To get the full benefits of convergence. investors have to go for local currency government bonds. And these countries boast relatively small debt markets and few liquid medium-term benchmark bonds. Financial structures in thes

countries are also little

developed. After adjustment for international standards on loan provisioning, not one of these countries can boast a hanking sector the size of a medium-sized Western bank. Moreover, if there is another bout of Asian market flu, Eastern European markets are bound to catch a cold, as they did last year. But given the political commitment to union on both sides of the euro border, the risk/reward ratios for some of these high-risk markets could take a significant shift for the better.

From early stage to buy-outs, a more enterprising view



Sale of Spear & Jackson plc to US Industries for £63,750,000



Germany's 2nd largest fast

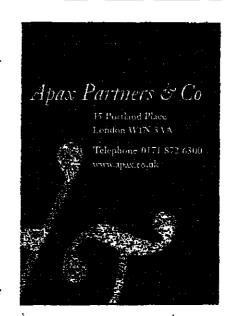


Acquisition of Dexion Plc, the storage materials of £70,000,000



Backwaren GmbH, Germany's larges industrial bread manufacturer

The investment partner chosen by the world's most enterprising people



COMMENT

Generators

Decaux may be compelled to make asset disposals

Decaux, the French group competing with Clear Channel of the US to take over More Group, may have to dispose of some Continental essets if its hid for the UK hus shelter, billboards and transport advertising com-

Although Decaux's £475m bid is conditional only on clearance from UK competition authorities, which will deliver their verdict by Thursday, it may have to make subsequent concesstons to authorities in Sweden. Denmark and Belgium.

Jean-Francois Decaux, chairman and chief executive, said that if Decaux contracts in Belgium if were allowed to take over More it would control about 90 per cent of the entire outdoor advertising market in Trans, More's transport and Dauphin As part of its

Cortecs, the biotechnology

company, has signed a mar-

keting deal with Glaxo Well-

come for its lead drug Macri-

awaiting approval in a num-

ber of European countries. The marketing deal - to be

announced today in London

- only covers Greece and is

worth about \$14m (£8.3m) to

years. However, Cortecs is

understood to be in talks

with a number of other com-

panies about licensing deals for other European coun-

tries. It has already agreed

deals with covering Spain.

By Roger Taylor

Cortecs signs

marketing deal

third of the Belgian market. in the UK, Decaux has argued that competition authorities should examine its bid in the light of the outdoor advertising market, of which More and Decaux together control 24 per cent, rather than the narrower bus shelter advertising market, where the combined

Mr Decaux said that he hoped the group would not be forced to make disposals, but that in Sweden it would first divest More's bus advertising business if forced to, and would sell More's train

share is about 90 per

Decaux, he added, had no interest in retaining More-

currently only available

either as an injection or a

Cortecs is following an

unusual licensing and mar-

approval in a range of

smaller European countries

and licensing the product to

different companies in each

country. To date, Calcitonin

has been filed with the regu-

Ireland, Finland, Spain, Por-

tugal, Luxembourg, Austria

The market for calcitonin

in Greece is thought to be

worth about \$30m a year.

However, Cortecs believes

that if an oral form of the

nasal inhaler.

tonin, which is currently keting strategy, applying for

Cortecs over a number of lators for approval in

Macritonin is a pill form of drug is approved, usage will

and Greece.

represented 3 per cent of More's £144m sales in 1997. has the contract for advertising on 1.600 subway cars and 1,000 buses.

Industry executives are not expecting Decaux to offer any divestments in the UK, and feel that such consions would be unlikely to assuage any competition concerns. Under UK competition rules, any divestment must create a genuine com-petitor, which disposals of individual local authority contracts would be unlikely to achieve.

The possibility of continental disposais may create opportunities for other outdoor advertising companies such as Wall of Germany, or the French groups Avenir

John Mathew, the former

owner of Powerscreen Inter-

national's Mathro subsid-

lary, has criticised the way

the business was sold, claim-

ing the Northern Irish engi-

neer could have done better

Mr Mathew last month put

together finance to buy back

the subsidiary founded by

his father and uncle in 1949,

but pulled out of a deal to

buy it because so much of

the equipment had already

The machinery at the com-

een packed in preparation

for shipment to sites belong-ing to John Deere, the US

maker which was front run-

ner to buy the business.

out of the deal.

been dismantled.

to some local authorities in

Industry executives believe other US groups may try to buy assets from caux as a means of establishing a European base. Mark Mays, Clear Channel's president, said last week that it had looked at several other European outdoor advertising companies, but they were "not nearly as attractive as More". Analysts are divided over

the risks that Decaux's bid will be referred to the Monopolies and Mergers Commission, but Simon Holmes, a competition expert with solicitors SJ Berwin, said: "From our analysis of the fundamental issues we think there's a significant risk of a refer-

was responsible for £46.6m

(\$77.8m) of exceptional losses

which hit the company dur-

ing the year to this March.

Matbro's losses are now the

subject of a Serious Fraud

Deere paid £7m for Mat-

hro's design rights and some of its stock. Deere was one of

the most obvious candidates

to buy Matbro because it

bought one of Mathro's tele-

scopic handlers, a form of

specialist tractor, for its own

Mr Mathew, who sold Mat-

bro to Powerscreen for £4.8m

in 1991, would have paid

on creditors of £9.8m and

warranty liabilities of £3m.

Deere paid asset value for

about £2.3m of Matbro's

stock, leaving Powerscreen

range of machinery.

pany's Tethury factory had £4.4m for Mathro and taken

agricultural equipment fA7m of design rights and

Office inquiry.



More sales? Jean-Francois Decau

Tethury factory, valued at

£2.4m. stock valued at £5m.

and debtors of at least £2.8m.

Mr Mathew said he would

not have gone ahead with

the purchase because so

much of the Tethury plant

had been dismantled on the

assumption the Deere deal

would go through. But he

was shown around the plant

with executives from Omni-

maker, for whom the cost of

factory refitting might not

However, on Wednesday

April 22, the bidders were

given until the coming Sun-

day evening to sign an

unconditional contract and

told to place £4.4m in an

escrow account that day.

The timetable persuaded the

have been such a problem.

Powerscreen criticised over sale

quip, the US equipment of Mathro under the circum-

US executives also to walk the efforts of any other

away from the deal, accord- owner to sort out Matbro's

was not able to comment.

While the deals appear to

leave the two rival bids

roughly equal in value, Mr

Mathew would have kept the

Tethury plant open, preserv

ing the jobs of those working

there, and would have taken

on the cost of meeting liabili-

ties. Powerscreen said it was

satisfied it had achieved the

best deal possible in the sale

Powerscreen appears to

have been anxious in the

run up to the sale to prevent

Deere walking away from

the deal. A sale to any other

company would have been

more complicated because so

much of the warranty liabil-

ity was owed to Deere.

which could have obstructed

moratorium with tough action on their dominance would be eldsteier erom This could take two forms: a price cap on generation or

A deal on coal, involving a moratorium on new gas-fired power stations, may be bad

news for the consumer. But

it would be a boon for the

generators, National Power

to set the pool price of elec-

tricity is buttressed by limit-

ing competition. True, a moratorium would not choke off

the flow of new entrants

immediately – some plants

are already under construc-

tion. But by 2000, the flow will have dried up, stabilising

prices and volumes. This

would be as good for the gen-

rassing for the government. A

erators as it would be ember

and PowerGen. Their power

forcing plant disposals. The first need not be negative for the generators. It depends how a cap is set. Pool prices are still well above where they should be in a fully competitive market. A cap which used current prices as a starting point could end up being quite benign for them.

Anything more radical, including hig plant dispos

could mean they refuse to do a deal. That is the bind facili governments when they intervene.

Asda/Kingfisher

Asda is a fashion victim after all. It resisted retail fads such as loyalty cards, only to be beguiled by the cross-selling concept. The talks between Asda and Kinglisher, now terrainated, would have created a huge retail conglomerate. Would such a combine make sense:

The deal has some financial logic. Overlapping sales in clothing, music, toys, and medicines would have topped 23bn (\$5bn). These would surely have yielded savings through squeezing suppliers, And for Asda, it would have meant a far swifter expansion of non-food retailing than by

building brands organically. But it is hard to see how this last point helps Kingfisher. The idea of its best brands being sold through Asda surely carries risk. Asda would only have space to sell a limited range of Comet electrical goods. Kingfisher has more to gain if consumers get exposed to the whole range, even if all they need is a toaster. Furthermore, pulling together all the Kingrisher and Asda brands would have been no small logistical challenge. The hiccups along the way would have been Christmas come early for their rivals.

ing to Mr Mathew. Omniquip problems. Irish gatecrasher spoils Trafford Park's wedding party

The north-west property company's plans to merge with Barlows have been upset. Sheila Jones reports

ir Neil Westbrook, the the company at £127m. spurning approaches for the

past three decades. for being difficult in negotiation, and the industry was Irish group. Sir Neil made surprised when Richard clear he did not like the Fildes, chairman of Barlows, the Cheshire-based property group, pulled off an agreement to merge with Trafford Park, its larger rival. But in agreeing the deal, Sir Neil inadvertently roused the interest of what has become a hostile party. Dublin-based

to secure the agreement of shareholders for the Barlows merger at an extraordinary meeting, Green came in with an offer of 205p in its own shares with a cash alternative of 185p a share, valuing

Green Property

Last Friday, instead of chester United football value of 167p against the company, the shareholders' meeting agreed to adjourn Sir Neil has a reputation for a fortnight to look at what was on offer from the offer, which, he told shareholders, undervalued the company. Green had one

week to come up with a "final and formal offer". bout a third of Trafford Manchester's Trafford Park industrial estate, the Days before Sir Neil hoped oldest industrial park in Europe. After a 10 year regeneration programme, it is near to full occupancy, with new tenants as well as

old, prestigious names such

as Kellogg's and Procter &

It is wedged between Man- ing the shares a net asset largest property company.

Few doubt that Trafford Park's growth prospects have been enhanced by the recent spate of investments in Manchester, such as the Trafford Centre due to open However, analysts argue

the rest of its portfolio is less glamorous and its management team conservative in a lively market where rental Park's portfolio is in rates and property values are rising. For shareholders, the choice is unclear. Sir Neil

has kept his cards so close to his chest for so long that few have a clear idea of the true value of the company's

The portfolio was last val-

ued a year ago at £155m, giv-

Trafford Park Estates, agreeing on the Barlows ground and the new G Cen- 185p a share cash offer and merger, which Sir Neil had tre, a 2500m retail and lei- its close on Friday of 179%p, north-west of England prop- hoped would allow him to sure development owned by up a penny on the day

> the offer, made informally, gave "very reasonable value" and would not be than 50 per cent of Trafford increased unless Trafford Park's shares, are wary Park came up with new information that persuaded Green otherwise. He did not believe the company's value had risen more than 10 per cent in the last year.

"We have been trying for two weeks to get information but they have not been prepared to talk to us. There is no point sitting in a realise some value, although trench throwing money at the value of that exit is hard them when effectively we're to gauge. "At least a cash looking at a pig in a poke," he said. "If Sir Neil thinks one shareholder. "That we are undervaluing the wasn't on offer with the ested" in Trafford Park company, why is he issuing Barlows merger."

Trafford Park shares at 160p to buy Barlows?"

Julian Grice, director at Henry Cooke Lumsden, the is seen as a company that Manchester-based broker, has little to bring to the asset value may now look relatively small. anny Kitchen, Green's more like the 200p-210p finance director, said implied in Green's paper offer, although institutional investors, which hold more about an Irish company that lating prospect in manage has come out of the blue with no connections in the

regional market. Green's offer gives the option of a cash exit for many of the small shareholders who have been with the company for decades and had hoped for a chance to exit is now an option," said

Barlows, meanwhile, which may have been thwarted at the final hurdle.

There is "a fit" in texms of the property portfolio, according to one institutional investor, but a merger "would dilute the company's value and it is not a scintil-

he best shareholders can hope for, according to Mr Grice, is that other, better quality companies

will enter the fray. The most obvious suitor, Peel Holdings, has made approaches in the past but lost patience with Sir Nell. Now it says it has enough on its plate with the Traiford Centre and it is "not inter-

Kingfisher and Asda talks end after two weeks

By David Blackwell

Talks that could have led to a £13bn (\$21.7bn) merger between Asda and Kingfisher collapsed after two weeks on Saturday.

Sources close to Kinglisher believes Trafford Park's net table. It is highly geared and said the two groups had been in exploratory talks on. UK competition authorities the possibility of a full-blown merger. But Asda was backpedalling yesterday, saying had reinforced his convicthe talks had been examining ways of working ment faced a problem over together in overlapping how to generate medium areas. No further meetings term growth. Kingfisher's were planned.

Kingfisher was making no comment yesterday, but anamerger would not defy logic. Asda, which has larger than average supermarket outlets, has moved into areas such as clothing, entertainment and pharmacy. Kingfisher, owner of B&Q, Comet, Woolworths and Superdrug, might have been able to find additional markets for its electrical and DIY goods.

September was forced to suspend talks on a 29bn merg with Saleway, the fourth largest, when the news was leaked to the press. The true felt that they would be unable to obtain advice on the deal's possible referral if

Yesterday one analyst said the talks with Kingfisher tion that Asda's manageexposure to the high street and non-food markets, as well as its presence in lysts suggested that a Europe, would have pro-

vided an ideal solution. Asda has used non-food goods to drive its sales rapidly ahead. It devotes 10,000 so ft of its bigger stores to clothing under its George brand, and has a large ous ness in CDs and videos. While attacking resale price maintenance, it has built a Asda, the UK's third larg- cines and beauty produ

Schneider SA

Second Notice of General Meeting Meeting of Guaranteed Exchangeable Bonds due 2003 SQUARE D

cent Guaranteed Exchangeable Bonds due 2003 of SQUARE D Company, invited by a first notice to attend the General Meeting on the 12th of May 1998, having been unable to deliberate, the quorum being not present, the holders of such bonds are invited to attend the General Meeting to be held on the 27th of May 1998 at 10.00 a.m. at the office of THE COMPAGNIE FINANCIERE DE CIC ET DE L'UNION EUROPEENNE, 4 rue Gaillon PARIS 2***, to consider the following agenda:

. The report of the Board of Directors and of the

 The approval, subject to the decision of the General Meeting of the shareholders of SCHINEIDER SA, of the authorization given to the Board of Directors of SCHNEIDER SA to Issue:

representing subscription right to an aggregate number of shares which can total no more than a nominal amount of FF 5 billion, in connection with the authorizations given by the General Meeting of the shareholders held on the 10th of June 1997.

In connection with this issuance of warrants, carrying preferential subscription right, SCHNEDER's shareholders

The General Meeting of the Masse of the holders of the 2 per should renounce any preferential subscription rights to subscribe shares issued in respect of the warrants.

> The approval, subject to the decision of the General Meeting of the shareholders of SCHNEIDER SA, of the authorization given to the Board of Directors of SCHNEIDER SA to issue:

GROUPE SCHNEIDER

representing subscription right to an aggregate number of shares which can total no more than a nominal amount of FF 5 billion. In connection with the authorizations given by the General Meeting of the shareholders held on the 10th of

In connection with this issuance of warrants, SCHNEIDER's shareholders should renounce any preferential subscription

Any other business.

in order to attend or be represented at the meeting, holders of bonds must deposit, at least five clear days prior to the meeting at the head office, the certificate of deposit, issued by the bank, financial institution or stockbroker with whom the bonds are lodged.

The Board of Directors



and the surgementation of Council data in Date, holders wishing to convert their bonds must exhault their notice of convertien and the bends no later than the close of tensions on June 5, 1996 at the office of the Convertion Agent.

In addition, the Company will distribute a 25% stock dividend to its shareholders and 31,937,000 shares of stock boms to its copiesses on May 25, 1936 (the record date). In accordance with the provisions of the Indesture constituting the Bonds, the Conversion Price will be adjusted from NT\$43.12 per share to NT\$58,78 per share-

NOTICE TO THE HOLDERS OF

Winbond Electronics Corporation (Lacoxporated with finited liability in Taiwan, Republic of China) US\$ 100,000,000

1 per cent. Convertible Bonds due 2002 (the Bonds')

"Notice of Suspension Period and Conversion Price Adjustment"

NOTICE IS HEREBY GIVEN to the holders of the outstanding Bunds of Winboad Electronics Corporation (the "Company"), in accordance with the Terms and Conditions of the Bunds, that the boadholders' right thereunder to convert any bund

The period from the close of business on January 22, 1998 up to and including May 26

WINDOWD ELECTRONICS COMPORATION

Capital One Master Trast TLS. \$300.000.000 Flording Rate Class A Certificates, Series 1995-2



Series 1979-2
For the interest period 15th May, 1998 to 15th June, 1998 the Certificates will carry as interest rate of U.S. 549.65 psychile per U.S. 310,000 denomination and U.S. 3496.54 per U.S. 310,000 denomination, psychile on U.S. 3496.54 per U.S. 310,000 denomination, psychile on Union Hank of Switze<u>chard</u> Landon Branch Agest Benk 13th May, 1996

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FIRST

PACIFIC.

FIRST PACIFIC CAPITAL LIMITED

U\$\$60,000,000

FIRST PACIFIC COMPANY LIMITED

is hereby given that for the period from 13/5/98 to 13/11/98 the

US\$35,522.22 per Note of US\$1,000,000

Standard & Chartered

Standard Chartered Bank As Reference Agent

ce with the provisions of the Floating Rate Notes,

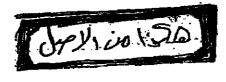
d Floating Rate Notes due 2000

The Chase Manhattan Corporation U.S. \$250,000,000

Floating Rate Subordinated Notes due 2000 For the three months 27th February, 1998 to 29th May, 1998 the Notes will carry an interest rate of 5.75% per annum with a coupen amount of U.S. \$145.35 per U.S. \$10,000 principal amount, payable on 29th May, 1998.

Bankers Trust Company, London

Agent Bank





reported deepening losses of

Mr Tonseth said last

Cunard to Carnival Corpora-

tion of the US would help

Kvaerner's interest bear-

ing liabilities of NKr14bn are

expected to be further

sale of non-core properties in

good reasons why it has not

been quicker to pick up.
As Roman Schmidt, head

of global debt syndicate at

Barclays Capital, said: "The

swap market is not offering

real arbitrage opportunities,

so you have seen mainly

Without a proper swap

And without a broad base

of euro investors, it has gen-

erally been more expensive

for issuers to launch bonds

in euros rather than Euro-

Traders argued that the

success of the recent euro-

denominated tranche of dual

currency bond issues from

Finland and Sweden was

because they were much

cheaper and offered an arbi-

One US investment banker

said: "The supranationals

and sovereigns still get

much better execution in the

European currency or dollar

And a lot of the standard

investors in corporate bonds

have been unwilling to pur-

sue euro-denominated

markets than in euros."

pean currencies.

trage opportunity.

market, euro-denominated

strategic issuers."

reduce group debt.

Kvaerner reports flat first quarter

By Tim Burt in Stockholm

LESS SHIP FREEZE | PORT

Kvaerner, the Anglo-Norwegian engineering and construction group, has the group are not satisfacblamed "unsatisfactory" performances by its shipbuilding and oil and gas divisions for flat first-quarter

The company announced unchanged pre-tax profits of erty disposals. Excluding NKr224m (\$30m) for the first three months of the year, even though sales rose 31.5 per cent from NKr15.2bn to NKr20bn

"The first quarter of 1998

Tonseth, chief executive, after cost over-runs at the tory.

At the operating level, profits rose from NKr442m to NKr523m, although the by a NKr180m gain on propone-off items, operating profits fell from NKr393m to NKr343m That decline was exacer

"The consolidated results for Masa shippard in Finland.

improvement was flattered

bated by sharply reduced contributions from Kvaerwas marked by difficult trad-ner's shipbuilding activities.

The rise of the ouro.

Boad Issuance (equivalent Stor)

core markets," said Brik from NKr290m to NKr168m

Mr Tonseth also blamed project cancellations in Asia and delayed oil and gas contracts in the North Sea for the disappointing figures. Profits fell in the oil and

gas division - from NKr85m to NKr68m - amid weak margins on large development contracts in Norway and the UK. The metals division contributed NKr25m compared with NKr42m last

Of the remaining divi-

ing conditions in most of our where operating profits fell sions, pulp and paper London and its US house building interests. Excluding the affect of

NKr49m - up from NKr37m while the so-called "other such disposals. Mr Tonseth businesses" arm, including predicted the results for the the Cunard cruise line, full year would show an announced reduced losses of improvement on 1997. NKr60m, down from In the first three months,

one of the few bright spots was the construction divimonth's NKr3.8on sale of sion, reversing a NKr14m loss in the first quarter of 1997 with a NKr34m gain this time. The process division saw profits rise from

Nevertheless, earnings per reduced this year with the share fell slightly from

issue. Ecus are swapped into

euros on a one-for-one basis,

but 13 per cent of the Ecu

value is accounted for by

sterling, and there is further non-Emu dilution from Swe-

den. Denmark and Greece

So buyers of euro-denomi-

currency risk.

nated bonds are taking on

As Mark Gull, senior fixed-

income fund manager at

Gartmore, said: "We think

that the balance of risk is

that sterling continues to

fall, so we would be better

off buying Deutschemark or

But there is every chance

that the level of issuance

"Most of the sovereign issu

enro market becomes a sub

cess rather than to achieve

the cheapest borrowing rate:

stantial single market."

French franc bonds."

Sanoma to merge with

By Tim Burt in Stockholm

Sanoma Corporation, the privately owned Finnish merge with rivals WSOY, one of Finland's largest publishing houses, and Helsinki Media to create the second largest newspaper and proadcasting conglomerate in the Nordic region.

Although few figures have been released ahead of the nerger, the combined market capitalisations of the three partners exceed FM13bn (\$2.4bn).

Under the terms of the deal. Sanoma is proposing a share swap with WSOY and Helsinki Media while preparing to list the enlarged group on the Helsinki stock exchange in May next year. The combined group will

publish several of Finland's eading newspapers, includ ing the country's largest daily Helsingin Sanomat and operate the Channel 4 television network and Startel, the news agency. Pro forma sales for the

company – to be called Sanoma-WSOY - are expected to reach FM7.4bn this year, including contribution from magazines, cinemas, printing operations and publishing houses.

In all, the group will employ more than 10,000

will increase. Paul Hearn, head of European capital When the deal was markets at J.P. Morgan, said: announced on Friday, shares in WSOY jumped FM126 to ers have been strategic. FM365, a rise of 53 per cent. They are clearly trying to Analysts expect the new company to challenge the position themselves in terms

dominance of Alma Media. of attracting funds when the the fast-growing Finnish media group, and consider Strategic issues are every expansion into neighbouring syndicate desk's dream, markets. since they are priced for suc-"The merger will create

possibilities for high-quality publishing, internationalisation, exploitation of modern Moreover, as Mr Schmidt technologies and profitable operations," said Jaakko Rauramo, chief executive of Sanoma. Mr Rauramo is to be president of the merged group, with Antero Siljola, chief executive of WSOY, as his deputy.

NEWS DIGEST

BANKING

Disposals help Dresdner advance by 23%

Dresdner Bank, Germany's second largest, raised first-quarter pre-tax profits 23 per cent to DM1.1bn with the help of sales of its outside shareholdings, Bernhard Walter, chairman, told the annual meeting. But this rate of increase could not be taken as an indication of the result for the full year

Operating profits - which exclude these extraordinary gains gained 12 per cent to DM1.1bn before risk provisions but only 3 per cent to DM887m after provisions. Net commission income rose by 23 per cent to nearly

DM1.5bn. Net interest income was 12 per cent higher at just under DM2bn, with financial trading profits also up 12 per cent to DM370m. The pre-tax return on equity was 23 per

Mr Walter, said Dresdner would strengthen its position in core European countries. Belgium, the Netherlands and Austrip were markets where the bank was under-represented. Dresdner would continue to expand its US investment banking operations. Acquisitions might be considered where suitable. "We shall be open for alternatives, provided they serve to achieve our goals and that they are appropriate in terms of strategy and price," Mr Walter said. Dresdner also intended to increase its business in the Asia-Pacific region, though this would be achieved through internal expansion Andrew Fisher, Frankfurt

US INVESTMENT TRUSTS

Opportunity for UK investors

UK investors could get the chance to participate in the booming US private equity market after the planned restructuring of an investment trust expected to be announced this week.

MCIT, the investment trust linked with the JZ investment group, one of the leading private equity groups in the US, is to replace its complex split capital structure of income and

ordinary shares and long term debt capital. It is also expected to raise new equity from UK and US investors. People close to the company say that one of the results of the long awaited restructuring will be to define MCIT as a venture capital investment trust, offering UK investors the bility to participate in the booming US private equity market.

capital shares with a more simple capital structure comprising

The company yesterday declined to comment.

RUSSIA

Official reassurance on UES

Russian officials over the weekend sought to reassure foreign investors that their shareholdings in Unified Energy Systems (UES), the Russian national power company, would not be jeopardised by a new, restrictive parliamentary law.

Sergei Kiriyenko, prime minister, and Anatoly Chubais, chief executive of UES, promised the government would protect the rights of foreign owners of UES stock and urged them not to "give in to panic". The UES share price and Russia's stockmarket as a whole has been battered by the new law, which caps foreign ownership of UES at 25 per cent, it is estimated that foreigners currently own up to 30 per cent of UES. The new law is unclear on how the foreign stake should be reduced to the 25 per cent ceiling, causing investors to worry. Chrystia Freeland, Moscow

Companies to launch next phase of euro issuance

Corporate sector is turning to bonds denominated in the new currency, write Edward Luce and Simon Davies

movers

Market

afarge, the French construction company, will join a growing list of bigname borrowers when it taps the euro-denominated bond market this week with an E500m offering. The bond, which will be Lafarge's first bond in any currency other than the French franc, is seen as a minor landmark by bankers at Paribas, which will lead-manage the issue.

This is the sort of A-rate European corporate which will be the bread and butter of the euro-denominated market after monetary union," says David Ovenden, a senior banker at Paribas. There are a large number of European companies looking to follow suit."

euro-denominated issues has and corporates and Japanese surged this year to the and US borrowers." equivalent of \$31bn, from just over \$10bn last year, the market has been almost completely bereft of corporate names. Big sovereign bond issues - including will be the second most liqofferings from Italy, Spain, uid bond currency after the Finland, Sweden, Greece, US dollar. Brazil and Argentina - have ...Among non-financial Euro: offerings are not dominated there there are plenty of

13mg 🦈

denominated market has just completed the first phase of its existence," said one lead-manager in London. "We now have basic, liquid sovereign benchmarks. What Although the volume of comes next are the banks

> likely to be driven to the euro market by the international scope of its investor base and by the fact that it

Rustre single engrenced by the investor, base for euro

pean corporates only Olivetti by one nationality, providing and Parmalat, the Italian for more cross-border liquidcompanies, have so far come to the market. "The eurothe US dollar. Partly as a result of this, the volume of bonds denomi-

behind the DMark. Bankers say corporates are cials say widespread predictions that the volume of euro

Wednesday June 10th, QE11 Conference Centre, Westminster, London.

Electronic Commerce Today

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Unlike bonds denominated died down in 1992 with the tive grade category, which for 1998", so banks are set down benchmarks in the in D-Marks or Italian lire, vote against the Maastricht has its own specialist inves-

ity than any currency except

nated in the euro has surged in the past four months, from sixth position among European currencies in 1997 to second so far this year, However, syndicate offi-

next January are exaggercial characteristics.

InterForum, in association with the Financial Times and the Business

Ecu/euro bond issuance Treaty in Denmark, and

issuance has been unattractive for the big US issuers such as Fannie Mae and

ated. For one thing, the market still retains some artifi-

issuance will explode before

tor base.

InterForum'98

SYMPOSIUM

Then there is the currency

issues, except in the specula-

available.

says, "there is a competition among bankers to make it into the euro league tables clearly using their persuasive powers to encourage greater issuance.

EUROTUNNEL P.L.C.

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EUROTUNNEL S.A. Société Anonyme with a share capital of FRF 1,688,784,219 Registered Office: 140-144 boulevard Malesherbes, 75017 Paris 334 192 408 RCS Paris

NOTICES OF GENERAL MEETINGS

These notices are to holders of Units in bearer form and, for information only, to holders of bearer Wattants.

Notice is hereby given that the Annual General Meeting of Eurotunnel P.L.C. will be held on Tucsday 16 June 1998 at 2.30 pm (local time) at Westminster Central Hall, Storey's Gate, London SW1H 9NH. The Annual General Meeting of Eurotunnel S.A. will be held at the Cercle National des Armées, 8 Place Saint-Augustin. 75008 Paris on 4 June 1998 at 9.30 am (local time) and in the likely event that a quorum is not obtained, the adjourned meeting will be held at Westminster Central Hall, Storey's Gate, London SW1H 9NH on 16 June 1998 as soon as the Annual General Meeting of Eurotunnel P.L.C. to be held on the same day and at the same place shall have ended or have been adjourned, to consider and vote on the following agendas:

EUROYUNNEL P.L.C.

1. To receive the Directors' Report and the audited accounts.

Re-appointment of Christian Cambier*. Re-appointment of Yves Dejou.

Re-appointment of Charles Mackay*.

Re-appointment of Georges-Christian Chazot.

Re-appointment of Keith Edelman*.

EUROTUNNEL S.A.

To approve the annual accounts for the year ended 31 December 1997 and to grant a discharge to the Directors and Commissaires oux Comptes. To make an appropriation to profit and loss.

To approve the contracts listed in the Special Report of the Auditors drawn up in accordance with article 103 and subsequent articles of the law of 24 July 1966 on commercial companies.

To re-elect as a Director Mr Georges Christian Chazot. To re-elect as a Director Mr Roy Chapman. To re-elect as a Director Mr Robert Lion.

To re-elect as a Director Mr Robert Malpas. To re-elect as a Director Mr Patrick Ponsolle.

To ratify the appointment to the Board of

To re-elect as a Director Lord Tugendhat.

Mr Christian Cambier.

7. Re-appointment of Robert Lion*. 8. Re-appointment of Charles Petruccelli.

9. Re-appointment of Maurice Le Maire.

10. Re-appointment of Robert Malpas.

11. Re-appointment and remuneration of Auditors. *Member of the Remuneration Committee

11. To appoint to the Board Mr Charles Mackay in place of

12. To appoint to the Board Mr Yves Dejou.

13. To renew the tenure of office of Befec Price Waterhouse,

titular Commissaire aux Comptes. 14. To appoint Mr Dominique Thouvenin as Commissaire

aux Comptes suppleant of Befec Price Waterhouse. To renew the tenure of office of KPMG Audit Fiduciaire

de France, titular Commissuire aux Comptes. 16. To renew the tenure of office of Mr Patrick Petit as

Commissuire aux Comptes suppléant of KPMG Audit

Fiduciaire de France. 17. Delegation of powers for the completion of formalities.

Instructions for attendance and voting for holders of beater units

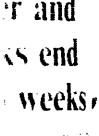
If you intend to attend the meetings in person or to rate by post or by proxy, you must immobilise your Units at least five days before the meetings by notifying the bank or other institution through which your Units are held of your intention to attend and/or vote.

If you intend to attend the meetings in person, when you immobilise your Units, you should request an Admission Card through the bank or other institution through which your Units are held. If requested in sufficient time, you should receive an Admission Card before the meetings, in which case please bring it with you. If you do not receive your Admission Card, you may still attend the meetings provided that your Units are immobilised and you bring with you suitable evidence of your identity and of the immobilisation of your Units.

If you do not intend to attend the meetings in person, you may exercise your voting rights by using the combined proxy form and postal voting form. Copies of proxy and postal voting forms and other documents including the full text of the resolutions to be put to the meetings and sent to registered unitholders in connection with the meetings may be obtained from:

English language - (by post) Computershare Services PLC, PO Box 82, Caxton House, Redeliffe Way, Bristol BS99 7NH, England: - (available for collection) Citibank, 111 Wall Street, New York, New York 10043, USA; The Nomura Securities Company Limited, 1-9-1 Nihonbashi, I Chuo-ku, Toyko 103, Japan: Enskilda Fondkommission, Norrlandsgatan 15, PO Box 16067, Stockholm

French language - (by post) Crédit Agricole Indosuez, Service des Titres, 9 Quai du Président Paul Doumet, 92920 Paris La Défense Cedex, Génerale de Banque, Montagne du Parc, 1000 Brussels, Belgium; Crédit Agricole Indosuez de Belgique. 40 rue des Colonies.



. - 3



Link Network across the UK, invites you to their third symposium. This one day event aims to help executives separate fact from fantasy and

identify real business advantage and opportunities to be found on-line. EVENT PROGRAMME Moreing - Welcome by the Chairman, Peter Martin, Acting Deputy Editor, Financial Times Keynote Address - Barbara Roche MP, Minister for Small Firms, Trade and Industry Electronic Commerce - enabling organisations to deliver a better quality of > How pricing, production and marketing materials are changing. Supply Chain Mechanisms. > The effect of electronic commerce on business accounting and financial systems.

> Dealing with the Millennium bug. Afternoon - Opening address given by Frank Gipson, IT Manager Business Link, Essex, followed by 5 live case studies of companies who have expanded their business with the use of Internet technology. **Q&A Session** - To conclude, a 30-minute Q&A Session, with all afternoon speakers participating, **SPEAKERS** Speakers include, Stelios Haji-loannou, Chief Executive, easyJet, Gwynneth Flower, Executive Director, Action 2000 (the governments initiative to tackle the millennium bug); Simon Murdoch, Managing Director, Bookpages; Charles Dukes, Managing Director, Swift Cookware; plus Ford Motor Company, Business Software Alliance and others. WHY YOU SHOULD ATTEND By attending InterForum '98, delegates will achieve a better understanding of the ways in which changing business processes will affect them as they move into the 21st Century. Interforum has specifically invited speakers from the business community ONLY to present their views/case studies on the issues facing middle enterprises. There will be no vendors taking part and no covert sales messages. This event is given for Users by Users. **REGISTRATION FORM** Places are at a premium, so please complete NOW! and return to: InterForum, Wiskworth House, 23 St Judes Road, Engletield Green, Surrey TW20 ODF

AN 1 InterForum

A MARKET

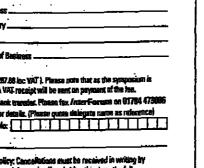
FINANCIAL TIMES

Wednesday

InterForum '98 Symposium, The Cases Eizabeth II Conference Centre, London, Jame 19th 1958 ___ Serd No. __ Space __ Presso simply names and positions of additional followants Calculation Policy: Cancellations must be received in writing by "let June 1995 and will be subject to a 20% cancellation; the todays a substance delegate is offered. After this dam, the full registration fee will apply, however substitutions will be accepted.

Tel: 01784 473005 Fax: 01784 473006 Email: helen@laterforum.oru

beformation prior, during and after InterForcem'96 will be available on the InterForcers web site on:





GLOBAL OFFERING

Strong retail demand for Cimpor cement sale

Portugal's small savers have placed orders for more than 150 times the 12.1m shares available to retail investors in a global offering of 25 per cent Cimpor, the country's biggest cement company, is to be concluded today. Because of the huge demand, the institutional offering is set to be cut from 7m shares to 3.4m. Both the Portuguese and International Institutional tranches are also several times subscribed, according to officials. The secondary offering, worth Es139.3bn (\$763m), will reduce state ownership of Cimpor from \$5 to 10 per cent.

Analysts say the strong retail demand for Cimpor refle sure to move savings out of bank deposits into equity following a sharp drop in interest rates over the past two years. Heavy retail demand is also expected for a sec-ondary global offering of up to 15.5 per cent of Electricidad de Portugal, the national power utility, approved by the gov-emment on Friday. The sale, worth Es427.3bn (\$2.3bn) at market prices, follows an initial public offer of 30 per cent of

Portugal Telecom has reported a consolidated net profit of Es19.2bn (\$105.4m) for the first quarter and total revenue of Es137bn. Peter Wise, Lisbon

HUNGARY

Mol rises 38%

Hungarlan oil and gas company Mol had first-quarter net income of Pt 17.8bn (\$84.5m), 38 per cent up on the corresponding period for 1997. Earnings per share rose from Pt 132 to Ft 181. Sales were up 3 per cent to Ft 174.5bn, but fell almost \$91m, or 10 per cent in dollar terms to \$837.5m.

As a result of the warm winter, natural gas sales were down 8 per cent in volume terms, but owing to changes in pricing and taxation, the gas sector was profitable though still short of the 8 per cent return on costs, Zoltan Mandoki, chief executive, said. Operating profits at the refining and marketing division rose strongly, from Ft 1.3bn in the first quarter of 1997 to Ft 5.6bn, helped by growth in the sales volumes of motor fuels, up 6 per cent, and fuel oils, up 27 per cent on the domestic market. Kester Eddy, Budapest

ITALY

Iri gives Alitalia details

lid. the Italian state holding company, has announced details of its planned sale of shares in Alitalia, the national carrier, in a private placement to institutional investors that will raise L790bn (\$450m). At a board meeting on Saturday, iri agreed to offer 27.6m shares to institutional investors at a price of L28,500 per share. This is at a discount to the closing price for Alftalia shares on Friday night of L29,666.

iri announced after the meeting that 60 per cent of the shares would be placed with Italian investors and the remainder with international institutions, the majority of whom are from the UK and US. The operation involves the sale of shares equivalent to 18.4 per cent of Alitalia's capital, bringing Iri's stake in the airline down to 67 per cent.

in the second half of next month, Irl will complete the second stage of its intended sale of shares in Alitalia, with an offer to employees of the airline. This is intended to bring Iri's stake down even further to 53 per cent. In's announcement comes ahead of Alitalia's move today to offer shares in a planned L3,000bn capital increase. James Blitz, Rome

Saga cuts costs as oil income dips 30%

By Tim Burt in Stockholm

Saga Petroleum, Norway's largest independent oil pro-ducer, has unveiled a ching cost-cutting programme and management overhaul following a fourmonth strategic review by its new chief executive.

Diderik Schnitler – head-

hunted last year from Kyaerner, the Anglo-Norwegian engineering and construc-tion group - said Saga had to streamline its operations after seeing income from oil exploration and production fall 30 per cent last year. Mr Schnitler, who offi-

cially succeeded Asbjorn Larsen as Saga chief executive yesterday, has drawn up plans to sell or swap some of its 100 exploration licences and outsource non-core administrative activities.

The move follows a sharp fall in oil prices, higher-thanexpected exploration costs and disappointing production yields from some of Saga's off-shore fields.

"We have come to some sort of standstill and we now have to face it." said Mr Schnitler, who emphasised that Saga's problems were shared by other oil compa nies in Norway - the world's second largest oil exporter after Saudi Arabia.

While praising Mr Larsen, Mr Schnitler said the company needed a more effective and focused management. The executive manage-

ment committee is to be halved, with directors Bjorn Solheim and Arild Unneberg being given "other central tasks" in the company. "We are not saying that

those who are stepping down are not important. They have serious work to do." Mr Schnitler warned that 1998 would be a bad year for oil exploration and production companies, although he predicted higher oil prices and fewer production problems in the longer term.

Last year, pre-tax profits at Saga dropped from NKrl.23bn to NKr931m (\$124m), even though reve nues rose from NKr7.66bn to NKr9.19bn.

CROSS BORDER M&A DEALS BIDDER/INVESTOR TARGET SECTOR VALUE COMMENT \$2.3bn Merging US ops Stone Container (US) CVC\CINVen (UK) Unit of KNP BT (N'lands) Packaging \$1.65bn Venture record WPG (US) Robeco (N'lands Fin services Airtours (UK) Leisure \$518m Initial 29% Cox (UK/Int'l) Alphanna (US) **Pharmaceuticals** \$200m Hoechst sale Esprit Telecom (UK) Plusnet (Germany Pentair (US) Vero (UK) Plug pulled Cable equipment \$169m Desc (Mexico ASF (US) \$142m Authentic offer Food Banco Santander (Spain) AFP Summa (Chile) Fin services \$105m Pension move Seguros El Roble (Chile) Blocking buy

MICROTEK INTERNATIONAL INC. to the holders of the ou

Microtek International Inc. (the "Company") US\$29,000,000 3.5 per cent. Bonds due 2001

3.5 per cent. Bonds due 2001
(the "Bonds")

NOTICE IS HEREBY GIVEN to be holders of the Bonds that the Board of Directors of the Company by a resolution dated May 7, 1998, authorised the issue of 65,252,491 shares of the Company's Compon Stock for free distribution to shareholders as a dividend, and employees as a boust. The Board of Directors has fixed May 30, 1998 as the record date for the determination of the abarcholders and employees entitled to receive such dividend and free distribution. Pursuant to the provisions of the Indenture constituting the Bonds, the Conversion Price of the Bonds has been adjusted as a result of the above issue from NTS41 to NTS34, effective May 30, 1998 (Republic of Crima time).

May 18, 1998

FORD MOTOR CREDIT COMPANY Resting Rate Notes Due February 13, 2003 (Common Code No.: 8441103 ISBN No.: US348397 RV79) (CUSSP Number: 346387 RV7) est Raie per annum for baried courses interest Period commencing May 1 1998, to August 12, 1998, shall THE CHASE MANHATTAN BANK

NOTICE TO HOLDERS

GENERAL ELECTRIC CAPITAL CORPORATION

6% Notes Due February 17, 1998 ISIN XS0041913319/ Serial No. 033001 (US\$100,000 Note)

61/8% Notes Due March 4, 1999 ISIN XS0042140649 Serial No.'s 000084 through 000095 (US\$100,000 Notes), 000183, 000184 (US\$10,000 Notes) 000461, 000462, 000496 through 000498 (US\$1,000 Notes).

NOTICE IS HEREBY GIVEN pursuant to Section 17 of both of the Fiscal and Paying Agency Agreements governing the above described notes, that General Electric Capital Corporation, as issuer, and the Bank of Montreal, as paying agent, have been ordered and directed by the United States District Court for the Middle District of Florida, Jacksonville Division to stop payment on the above described notes and all outstanding coupons appurtenant thereto.

Dated: May 18, 1998 GENERAL ELECTRIC CAPITAL CORPORATION BANK OF MONTREAL

The United Mexican States Collateralized Floating Rate Bonds Due 2019

May 16, 1966

Appointments Advertising

rs in the UK edition every sday & Thursday and in the

Battle-scarred Allianz chief ready for European fray

German insurer has ambitions of becoming a global business, write Christopher Adams and Andrew Fisher

rom a quiet and leafy
district of Munich, Henning Schulte-Noelle has begun to extend the reach of Germany's biggest insurer in neighbouring European markets.

With assets under management of DM480hn (\$269hn) and premium income of DM110hn, Allianz is emerging. kets. "Size isn't everything." he says. "But if you're one of the leading players, you've a much better chance to influabout 60 per cent of total ence developments than premiums from non-life busi-

become a victim." Mr Schulte-Noelle likes a good contest: a scar on his left cheek bears witness to a duel he fought while a student at university. As chairman of Allianz,

though, he has displayed greater caution. A potential and costly bid battle with Generali, the Italian insurer. for control of Assurances Générales de France was avoided when the companies egotiated a deal that gave AGF to Allianz in return for some of the combined erono's interests

Increased competition and the approach of European monetary union has sparked an unprecedented struggle for market share among the continent's biggest insurers. A rush of mergers and acquisitions has begun to reshape an industry characterised for decades by national champi-

ing as one of only a few of dominating a single market in insurance. It derive

life and health. The DM9bn acquisition of AGF places Allianz among the top five insurers in each of France, Spain, Belgium and Ireland. The group already had a 15 per cent share of the Italian market and 14 per cent of non-life business in Switzerland.

But it will need to make further acquisitions to fuel

ness and 40 per cent from

its ambitions of building a global business. Analysts say it lacks an international ement operation capable of competing on level terms with Axa of France and Switzerland's Zurich it could also benefit from a more substantial presence in UK life assurance where declining state welfare benefits for old age and ili health should benefit the private sector.



ing Schuins-Noelle: enjoys

Mr Schulte-Noelle says cross-border deal-making in insurance will accelerate. fuelled by competitive pres sures, the biggest of which is the onslaught by banks able to use their retail branch network and asset management skills to market invest ment products.

On its own, he says, monetary union does not eliminate the main barriers to cross-horder sales of products like life assurance and pensions. The different legal and tax regimes of countries are still a hindrance. But European Union direc-

insurance markets have begun to have an effect. Fixed tariff structures have been abolished and companies are allowed to operate across the continent under the rules and supervision of their home countries. Prices. are becoming more volatile and companies are seeking to cut costs.

strong stimulus to the convergence of tax and legal systems," he says. "Companies that persist with a a position we would feel national attitude won't be comfortable with over the able to resist in the long

edges the value of distribution links with banks, Mr Schulte-Noelle draws the line at Allianz itself taking a majority stake in any of the banks with which it has long-standing ties. He is ups that go beyond distribution agreements. "To become a fully integrated financial concern on a global basis is out of reach of anybody, at least for the moment. The management resources are not there."

Yet Allianz's bank holdings, such as its 22 per cent

tives aimed at liberalising of Dresdner Bank - with which it is negotiating an asset management tie-m do put the insurer in a strong position to influe changes in the financial asse vices sector. The charm of this situation is that it leaves all strategic options Open for us."

He says the group would rested in strengthen The sure will give a ing its position in UK insursnes "Given the concentration among the big players medium to know turn. Following its entry into the PMket last month. Allianz is also spaking opportunities to Malausia and Vietnam.

For now, though; the group is likely to concentrate on integrating AGP. It announced last week that its own Spanish operations would be merged with those of AGF and Athena, the French insurer subsumed into the group as a result of the purchase by AGP of

There will be cost sayings. The group is aiming for a net return on its AGF investment of 9 per cent by 2000.

GOVERNMENT BONDS JAPANESE YIELDS PLUNGE AS FEAR OF DEFLATION DRIVES BUYERS TO SEEK REFUGE

ceptical investors pour into JGBs

Is Japan's bond market in a bubble? That is one key question hanging over the Tokyo financial world.

For while leaders of the G8 industrial nations worry about the record equity prices being recorded in the US, on the other side of the Pacific another striking market surge is under way - in Japanese government bonds. On Friday the yield on the

182 contract plunged to touch 1.285 per cent, a new record low. This contract is used as the 10-year benchmark (though, in a confusing Japanese quirk, it expires in

en years time.) The yield later closed at 290 per cent, but even this active buyers. Two weeks is well below previous global ago, the city banks, which lows - the 1.85 per cent yield tend to be trendsetters. recorded in the US in 1941. reportedly increased their bled some 30 basis points in three weeks.

On Friday, the Economic Planning Agency declared that bond prices should soon fall, once the market "underthe recently announced Y16,700bn (\$125bn) stimulus package. When the effects emerge I am confident the bond market will change its percep-tion," Koji Omi, EPA head,

Some government officials

nsist this cannot continue.

said one trader.

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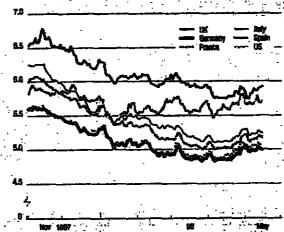
reason is that government funds, for example, remain

committed bond buyers. Kenji Ogata, deputy director of the Postal Savings bureau, for example, says his group plans to buy Y2,000hn of the Y6,000hn bonds the government will issue to support its stimulus package. The Ministry of Finance's Trust Fund bureau has indicated it will buy another Y2,000bn, This means that the new stimulus package will only leave around Y2,000bn to be absorbed by the markets.

Meanwhile, Japanese investors, who own more than 90 per cent of the 9250 000hri JOR market are day a big life insurance a cut later this year if the group bought Y300bn of 20-

year bonds, traders report. "This is a pretty convincing sign that Japanese investors do not believe their own government when it says that bond prices will fall,"

This scepticism partly reflects a new debate erupting about the direction of monetary policy. Since the autumn of 1995 rates have been kept on hold at a record 0.5 per cent. But the Bank of Japan's newly inde-tion has stayed positive, run-



pendent policy board meets ning at around 2 per cent in tomorrow.

economy worsens. And though a reduction still seems unlikely, it cannot be

But the main reason for the bond price surge is a fear that Japan could be heading for deflation. Wholesale prices dropped 2.7 per cent in the year to April, and are expected to fall further in coming months as the impact of the Asian turmoll and weak yen feeds through. Thus far, retail price infla-

recent months. But this in the consumption tax from 3 per cent to 5 per cent last spring. This drops out of the data in April.

Consequently, when wholesale price deflation feeds through to the consumer after a few months, retail price inflation could turn negative this summer as well.

Given this, yields as low as 1 per cent no longer look crazy, some investors argue. For a Japanese institution

ing overseas instead: net nurchases of non-yen bonds, for example, reached Y2,800bn in April But many institutional investors are still reluctant to hold more than 20 per cent weighting in non-yen instruments because of the currency risk.

As William Campbell of JP Morgan says: "JGB's are a terrible investment. But the problem is that everything

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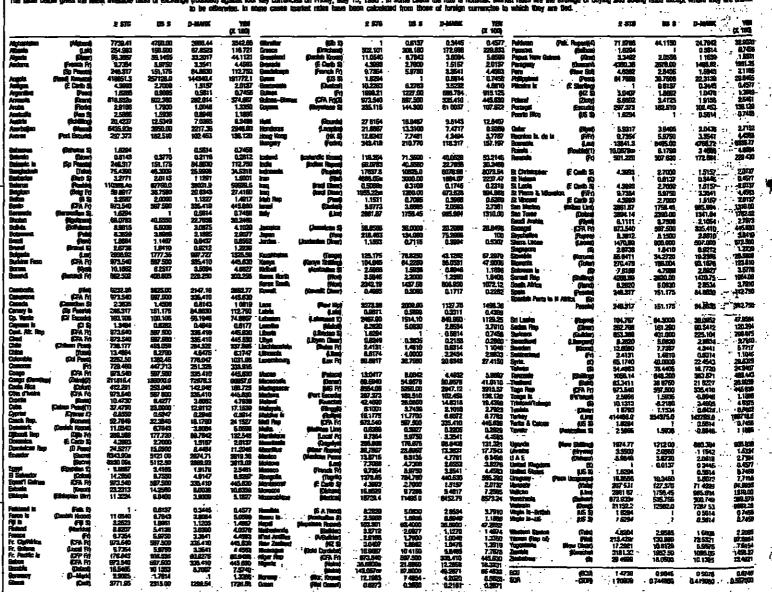
else is worse. The EPA disagrees: defiation, it insists, is not a feasible prospect because the stimulus package will start to boost demand, this sutume. But though most observers believe H. willstave off an outright racession. four expect to see a sus-

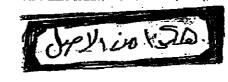
teinable surge in growth. As Luke Katayama of Nomura Asset Management argues: "The latest package is unlikely to raise growth above I per cent, so I think yields should stay low."

If he is wrong, the implications would be painful: a sudden crash in the market would deliver a severe blow to Japan's institutional investors, particularly the banks who have growing

But right now, this scenario is not wortying most investors. Bond yields of 1.29 per cent, in other words, may look bixarre. But they could get more bizarre yet

exposure to JGBs.





¥22

FT/S&P Indices (rebased)

EMERGING MARKETS CIVIL STRIFE HAS WIDER IMPLICATIONS AND SHOWS ASIAN TURMOIL HAS YET TO END

Indonesia evokes spectre of crisis

By Philip Coggan, Markets Editor

The rioting and political unrest that have swept Indonesia over the past few days are exactly the kind of conditions that send foreign investors heading for the

The currency crisis that hit the rupiah last year and the tortuous negotiations with the International Monetary Fund on a reform programme, had already prompted many investors to slash their holdings in the country. The FT/S&P Indonesia index has dropped 54.1 per cent in dollar terms since the start of this year and by nearly 87 per cent since the beginning of 1997. Companies linked to the ruling family have been particplarly hard hit recently.

under pressure to step down, at the moment." shops and offices being looted and foreign embassies advising their nationals to most adventurous speculator would think twice about price rises imposed as part of spread to the rest of the buying Indonesian stocks.

into the market," says Geoff-rey Dennis, global emerging market equity strategist at Deutsche Morgan Grenfell, while Fiona Hatborn, head of far eastern equities at Hill Samuel Asset Management, says: "We are not touching With President Suharto Indonesia with a barge-pole

The overthrow of Subarto would not guarantee a return of confidence. After many of the protests was the the IMF agreement; an region. The countries most There is absolutely no incoming regime would be

internal pressure to abandon elements of the reform pro-

would still bave to deal with the weakness of the financial system. According to Mr Dennis: "The equity market may rally in the short term on a political transition but the problems are not just political."

The bigger worry for inter-Indonesia's problems could immediately affected are the foreign interest in getting likely to come under great neighbours Malaysia and

Indonesia and potentially face an influx of refugees and disruption of trade. The Singapore market dropped 6.8 per cent last week, while

Malaysia fell 24 per cent. More broadly, the prospect of political breakdown in indonesia creates the possibility of default on its overseas debts - an outcome which would drastically hit sentiment towards the

"H Indonesia defaults. then banks will demand a risk premium from Korea. Thailand and Malaysia." says Arnab Banerji, chief investment officer of Foreign & Colonial "Currencies will fall, interest rates will rise

and equities will be hit."
Indonesia's problems, and renewed talk of the possibility of a Chinese devaluation, has prompted a market setback. The FT/S&P Pacific Basin index has already lost all, and more, of the gains leave the country, even the all, the initial reason for national investors is that made in the first part of the year. It is gradually becoming clear that the problems of Asia will take a long time to sort out and that political

Singapore, which have may delay the kind of strong economic links with export-driven rebound on export-driven rebound on ing at the start of the year. The psychology of inves-

tors this year is that they have had blind faith in an Asian turnround, but this crisis could remove the scales from their eyes," says Edmond Warner, global strategist at BT Alex Brown. "Markets could retest the lows seen in the fourth quar-ter of 1997."

Albert Edwards of Dresdner Kleinwort Benson takes a similar view. "It is always dangerous to participate in a liquidity-driven rally, for when the music stops, investors refocus on the funda-mentals. In Asia, the music has stopped."

But one or two investors are starting to take the view that the sharp market falls have created profitable opportunities. "Negative sentiment has hit prices in south-east Asia, and we are prepared to buy in at these levels," says Hill Samuel's Hathorn. "They could fall further but it is difficult to pick the absolute bottom and we can take a 12 month to

NEWS DIGEST

POWER

Asia crisis behind M\$2.1bn loss at Tenaga

Tenaga Nasional, Malaysia's national power utility, reported a net loss of M\$2.1bn (US\$561m) for the half-year ended Februlary 28, swinging from a net profit of M\$511m in the yearearlier period. The company has made no pretences about the damage the regional financial crisis was doing to its bottom line, so analysis were not surprised by the results.

Ahmad Tajuddin Ali, Tenaga executive chairman, told reporters in Kuala Lumpur that the sharp depreciation in the ringgit was largely to blame as it made it more expensive to pay the company's foreign loans. Tenaga reported foreign exchange losses of M\$2.47bn, against profits of M\$118m.

But Mr Ahmad Tajuddin said demand was expected to grow 9 per cent this financial year and would offset the impact of the weeker ringgit if the currency stayed at present levels. "Our cashflow is healthy and we are able to meet all

He expects Tenaga's capital expenditure to be M\$4bn annually for the next three to four years. That is down from its previous projection of M\$5.5bn for this year. The company hieved savings by deferring 72 power transmission and distribution projects to 2003, and removing a transmission line, which was to have linked the Bakun hydroelectric dam projec - now on hold - with the national grid. Sheila McNulty, Singapore

THAILAND

Oil producer posts 500% rise

PTT Exploration & Production (PTTEP), the listed subsidiary of state-owned oil company Petroleum Authority of Thailand (PTI), has announced that its net profit in the first quarter increased more than 500 per cent from a year earlier to Bt1.81bn (\$46.6m). Much of that increase came from an unrealised foreign exchange gain of Bt2.74bn as the baht strengthened and the company has a large amount of foreign loans and expenses.

Operating results were also strong, although expenses gree ter than sales. Sales were up 61 per cent in the quarter to Bt2.27bn and expenses were up 105 per cent to Bt1.02bn. The company attributed its rise in expenses to increased ited with the expansion of the Bongkot field and the Malayslan-Thai Joint Development Area, along with interest expenses from Samuri bonds issued in the third quarter of

PTTEP is in the middle of a capital raising programme to fund expansion. Some 16m new shares will be offered to Thal and international investors along with 16.5m shares that will

■ Electricity Generating, the listed subsidiary of stateowned power company Electricity Generating Authority of Thailand, said its net profit in the first quarter increased more than 800 per cent to Bt3.78bn. Foreign exchange gains of Bt2.76bn also played a large part in that increase, although revenue also grew 38 per cent to Bt803m in the quarter with expenses rising only 19 per cent to Bt286m. Interest income on substantial cash holdings also increased. Ted Bardacke, Bangkok

Singapore Telecommunications, the national telecoms operator, said it will begin offering a budget, lower-grade interna-tional telephone service on a limited basis in June and the system will be fully available by year-end. The service is to provide cost savings of about 30 per cent on calls to 18 destinations with lower voice quality than the company's interna-tional Direct Dialing system. Initially, 5,000 users of its International Calling Card service will be eligible. Access will be widened in stages to other users of card services, direct-dial telephones and mobile telephones.

■ Singapore Airlines, the national carrier, said it will buy 10 wide-body, A340-500 aircraft from Airbus Industrie for US\$2.2bn. The aircraft are for non-stop flights on long routes, such as from Singapore to Los Angeles. Such feats are beyond the capability of Singapore Airlines' present aircraft and will enable the carrier to expand its US operations. Deliv-

HONG KONG

Jardine to sell Optical Shop

Jardine Pacific, the trading arm of The Hong Kong-based Jardine group, is to sell its 40-branch The Optical Shop to OPSM

This announcement appears as a matter of record only.



SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA-SONANGOL U.E.E.

US\$ 79,000,000

CREDIT FACILITY

To finance an oil & gas production platform, remote flare structure and associated pipelines for the Cabinda Concession Area offshore Angola, constructed by Daewoo Heavy Industries Ltd., Korea

Arranger ING BARINGS

GL CREDIT LYONNAIS

Lead Managers **ING Barings** Credit Lyoppais Crédit Agricole Indosuez MeesPierson N.V. Banque Paribas

Credit insurance policy provided by Korea Export Insurance Corporation (KEIC)

ING Barings

ING BARINGS

Sales

for the first quarter 1998

The consolidated sales for the 1st quarter of 1998

amounted to FRF 18.7 billion compared to FRF 18.4 billion

for the 1st quarter of 1997. The increase on a comparable

4,697

4,269

-595

18,585

rigures for "Other Activities" are no longer available due to the deconsolidation of Vallourec on June 30, 1997 and the change in

consolidation of Forcast on December 31, 1997 to the equity method Fafer (Belgium, Specialty Steels). Thainox (Thailand, Stainless Steel

and Alloys) and La Magona (Italia, Flat Carbon Steels) will be

consolidated by global integration on June 30, 1998 and are not included in the above figures for the 1st quarter of 1998.

The increase in sales between the 1st quarter of 1998

and 1st quarter of 1997 is due to both an increase in

demand in terms of volume (Flat Carbon Steels + 6.7%,

Stainless Steel and Alloys +10.1%, Specialty Steels

+14.7%) and increase in average sales prices (Flat Carbon

Steels +7.6%, Stainless Steel and Alloys +4.2%, Specialty

All of the Group's plants continue to be busy while the

KUSINOR

price level of flat stainless steel remains uncertain.

1st quarter

1997

4.095

3,647

2.274

~619

18,423

basis is 14.8%.

In FRF millions

and Alloys

Specialty Steels

Other Activities

Inter-company sales

CORRECTION NOTICE

To the Holders of

Wells Fargo & Company Floating Rate Subordinated

Capital Notes due 1998

With reference to the Notice in this paper on April 1, 1998, please be advised that:

The date that all the outstanding Notes are to be redeemed will be July \$1, 1998 and not July 7, 1998.

Wells Farge & Company

By: Morgan Guaranty Trust Company of New York as Trustee Dandellay 15

J.P. Morgan & Co.

Subordinated floating rate

notes due August 2002

propinions of the notes, notice

interest period 18 May 1998 to

18 August 1998 the notes will

corry on interest rate of

payable on the relevant

5.57422% per annum. Inte

interest payment date 18

August 1998 will amount to

US\$71.23 per US\$5,000 note.

Agent: Morgan Guaranty

is hereby given that for the

In accordance with the

LIS\$200.000.000

February 1998

The consolidated

sales for the

1st guarter

amounted to

FRF 18.7 billio

The increase

on a comparable

basis is 14.8%.

Investor Relations

13, cours Valmy La Defense 7 192070 La Defense Cedex

France tel: (33-1) 41 25 98 98 fax: (33-1) 41 25 97 80

of 1998:

Change on a

+ 14.3%

+ 17.7%

+ 14.8%

CHEVY CHASE MASTER CREDIT CARD TRUST II

U.S.\$138,000,000

Class A Floating Rate Asset Backed Certificates, Series 1995-B

Class B Floating Rate Asset Backed Certificates, Series 1995-B

5.906250% 6.026250%

Interest Account Rate Comprin Amount (USD)

` U.S.\$12,000,000

Singapore Air advance masks Asian turmoil

Singapore Airlines reported a 0.3 per cent increase in group profit to S\$1.04bn (US\$634m) for the year ended March 31. But the results included the period before the regional crisis took hold, making the national carrier appear to be doing better

due largely to a good first half, masks the effect of the and Kuala Lumpur.

results from across the

By Gillian Tett in Tokyo

it has emerged.

The amount of group life

assurance policies managed

hy Japan's 43 life assurance

percentage points to 70.5 per cent. Singapore Airlines said the outlook for passenger traffic this financial year is tries expected to abrink. It The billion dollar profit, has cut the frequency of flights to Jakarta, Surabaya

Asian economic turbusers, said Cheong Choong Kong, using smaller arruses deputy chairman and chief some flights to Seoul, Hong Kong, and Bangkok. To off-The national carrier is Singapore Airlines, like set those measures, it is most regional carriers, has deploying more capacity to been hit hard by the crisis. Europe, the US, Australia poor sirline and the Indian subcontinent. region as the booming busi- intensified its marketing and the year's total dividend to

ness and tourist travel that promotions and offered up to 22.5 cents a share. That is 7.5 characterised east Asia in 30 per cent discounts on percentage points lower than recent years recedes. some flights.

5.5 per cent, and overall load this new financial year is factor fell 1.4 percentage budgeted to rise 6 per cent points to 69.1 per cent. Passenger seat use fell 3.9 mixed.

Singapore Airlines has 15 cents a share, bringing

but growth prospects are

Exports from much of Asia are expected to be strong, as depreciating currencies make goods denominated in poor, with outbound traffic them more attractive from Korea, Japan and sev- abroad, but imports from eral south-east Asian coun- Europe and the US are expected to slow as consumer spending falls in Asia.

"We expect the very difficult operating environment, which descended on us in using smaller aircraft on November last year, causing passenger loads and fares to fall, to continue well into 1998 and possibly beyond," Mr Cheong said.

Singapore Airlines prothe year-earlier period, when some lights. Some lights. The year-earner period, when ity rose 7.6 per cent in the line of the percent in the grew at a lower rate of just ended. Cargo capacity in anniversary.

The impact of the decline

be sold at the same time by the PTT.

SINGAPORE

Budget telecoms service

eries will begin in 2002. Sheita McNutty

Protector, the Australian eyewear company. The disposal, for an undisclosed sum, is the latest by Jardine Pacific, which in recent years has been shedding non-core businesses, including insurance activities. The Optical Shop, which has been owned by Jardines for the past decade, has stores in Hong Kong, China and Singapore, It employs some 200 staff and has a turnover of about HK\$200m (US\$25.8m).

OPSM Protector said the acquisition was in line with its

JPMorgan

BONDHOLDERS KINPO ELECTRONICS, INC. 14/

Libor Determination Dat Accrual Period: Days in Accrual Period.

These Interest Accusal Rates and Coupon Art the interest payable on Munday, June 15, 1998

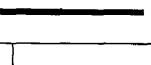
Incorporated as a Company Ltd. by shares in Talwan, R.O.C.) US\$44,000,000 3% Bonds Due 2001

NOTICE IS BEREBY CIVEN, that following the decla-ration of stock dividends and bosus in shares of 103,679,113 bosis in shares of 103,679,115
shares with a per value of NTS10
by the Convention
Price of the Bonds shall be adjusted from NTS39,71 to NTS32,53
with effect from May 22, 1998.
As a result thereof, holders of
Entitlement Certificate ("SC")
whate Others are resistent in the whole taking are registered in the share register of the Company as of May 22, 1998 shall be emitted to an additional 220 ECs for each 1,000 ECs held.

J.P. Morgan & Co. Incorporated US\$250,000,000 Subordinated floating rate notes due November 2002 In accordance with the provisions of the notes, notice is hereby given that for the interest period 18 May 1998 to 16 November 1998 the notes will carry an interest rate of payable on the relegant interes 1998 will amount to US\$ /-15.35 per US\$5,000 note and US\$2,907.00 per US\$100,000

Agent: Morgan Guaranty rust Company **JPMorgan**





Bankers Trust Company

US\$701,859.36 US\$62,271.25



quarter to Bt104m (\$2.7m). was able to revalue its for only slightly whether the strategy to leverage its skills as the region's leading optical Although sales increased in eign loans downward in baht, is at Bt40, Bt45 or Bt48 retailer and expand into new markets. both baht and dollar terms, terms, creating a huge to the dollar. Louise Lucas, Hong Kong

Downturn hits Japan's life assurance groups

Consequently, it highlation gets under way. report dismal results when

they announce their earnings figures in the summer. Unease about the financial health of the sector has risen since Nissan Mutual became Y437,960hn (\$3,266hn). The cent in the first 10 months of number of contracts fell 17 fiscal 1997. Individual annuance group to collapse since per cent to 84,628bm. Individities fell 3.9 per cent,

By Ted Bardacke in Bangkok

exporters, a small but impor-

tant part of the country's

stock market, saw strong

first-quarter operating prof-

its masked by huge gains or

losses resulting from an app-

Unlike leading Thai manu-

reciating baht.

the second world war. In ual life assurance cover fell particular, many companies 1.5 per cent to Y1,468,070bn.

Japan's Big Bang dereguilar to a pension scheme.

the 11 months to February, The fall, which was largely first big drop recorded in the sector in recent decades. main products. One is life

are being squeezed because

tionally drawn premium caused by corporate clients income by offering group cancelling contracts, is the and individual clients two assurance cover which protects company employees or

policies in force, which rep-

life assurance industry, as is an "annuity" scheme, sim-The decline will fuel life assurance industry asso-

high, but income from precompanies fell 25 per cent in miums and investment has been falling.

their liabilities are very

lights the business pressures individuals against the risk operating on the country's of death or injury. The other

value of all potential claims, have been declining. Group fell by Y146,554bn to amulities in force fell 1.5 per

One reason for the drop is companies no longer feel they can afford to provide such generous life assurance cover for their employees, The companies have tradiindustry officials say. However, the decline also reflects growing competition: A number of non-Japanese companies are scram-

expectations that some life ciation shows that in the 11 assurance companies will months to February 1998 the decline will hurt earnings, value of group life assurance analysts say.

resents the total theoretical data shows annuity schemes

bling to enter the sector. However, data from the policies have traditionally

on business revenues is not clear, since corporate report-

ing in the sector is patchy. But although life assurance provided lower premiums Meanwhile, the industry

Baht gain hurts Thai groups

of the baht for its fortunes. the full year could be 40 per uation and subsequent appreciation.

in foreign currency, and thus gain from a stronger baht - exporters see their Bt4.26bn if the baht stayed baht revenue, margins and around 40 to the US dollar and worldwide market, Hana competitive position eroded rather than reaching the loses operating profits every when the baht gains. From January to March this year, to the dollar at the year and the dollar. However, with the baht appreciated 17 per Delta Electronics, an said its net profits in the exchange gains also rise exporter of computer moni- first quarter increased

receivables and cash.

cent lower than the forecast

KCE Electronics, a maker dollar liabilities of roughly of printed circuit boards, \$50m, its nurealised foreign tors and other peripherals, saw net profits plunge 65 per year to Bi381in. With high Securities notes that the cent year on year in the first foreign debt, the company company's valuations differ

the company was forced to extraordinary, although report Bt748m of foreign unrealised, gain. Listed Thai electronics exchange losses on dollar Hana Microelectronics, an

assembler of integrated cir-With little debt, the com- cuits and other electronic pany was not able to claim components, said first-quargains on dollar-denominated ter net profits increased loans and thus is largely more than three-fold to dependent on the direction Bt358m More than 50 per cent of profits came from the Indosuez W.I. Carr Union operations of its Hong Kong facturers - which have Securities recently reported subsidiary, which has been domestic revenue but debts that corporate earnings for unaffected by the balit deval-

> Because of its dollar sales broker's estimate of Bt48.25 time the baht rises against with a strengthening baht.

MARKETS WEEK

At Home in Emergine and Capital Markets ING BARINGS

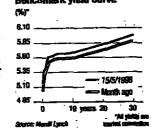
May 18 - May 24

NEW YORK By Tracy Configen

US Treasury bonds are expected to continue to trade within a tight range ahead of Tuesday's meeting of Pederal Reserve policy makers, amid concern that an interest rate rise is now likely. Although most analysts believe the Fed is unlikely to raise interest rates at this week's meeting. some believe that a rate rise at the next meeting, on July 1, could be on the cards.

Economists have been gradually adopting a more bearish position. Donaldson. Lufkin & Jenrette predicts a ¼ point rise in the Fed funds rate this year. Last week's April

consumer price data rose more than expected, when food and energy prices were excluded, due to factors such as accelerating housing costs. Market sentiment was also dampened by the heavy volume of corporate and municipal bond issues, as well as three year and 10-year Treasury note



12 13 14 15 May 1998 However, signs of further turmoil in Asia may make it harder for the Fed to raise rates, and drive a flight to

quality, according to analysts. But economists at Chase Securities warn that developments "indicate that the risks remain skewed in the direction of a worsening (US) trade performance".

LONDON By Stave Thompson

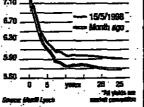
There is plenty of economic and corporate news to keep the London market occupied this week. Without doubt the main event in global terms is the meeting on Tuesday of the US Federal Reserve's open market committee, which will determine

interest rates. A move by the Fed to lift rates could well hit Wall Street and therefore upturn all markets.

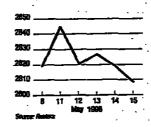
Domestic economic news this week includes inflation data for April, due on Tuesday, expected to show headline inflation up 1 per cent on the month and 3.9 per cent over the year, with the underlying figure (targeted by the government) expected to come in up 2.8 per cent over

the year to April. Retail sales data for April are scheduled for Thursday; the consensus forecast is for a 0.5 per cent monthly

On the corporate front, no fewer than 10 FTSE 100



FTSE All-Share index



constituents are due to report, while a long list of annual general meetings includes five Footsie stocks.

Worries about emerging inflationary pressures, in the form of higher than expected average earnings and unit wage costs, were behind a midweek wobble in the FTSE 100 last week.

FRANKFURT

The DAX index of the 30 biggest German companies closed up 33.5 points at the close of electronic trading on Friday at 5,407.6, back near to its April peak. Ian Scott, analyst at Lehman Brothers in London, said signs that conditions in the German labour market were at last improving were set to boost

mer-related stocks. However, he was more cautious about the German stock market in general because of the strong gains already made. investors this week will

concentrate on news from

the US where the FOMC will be deliberating the future course of US interest rates. On the corporate front, Preussag Stahl – which has been renamed Salzgitter -will give details of its stock market flotation today. The former steel division of conglomerate Preussag was bought by the northern German state of Lower Saxony to stop it falling into

perk yleki çurve.

4.76



Viag will give details of its husiness at a press conference tomorrow Bayerische Vereinsbank and Hypobank, the Bavarian banks that are merging, are due to publish their first-quarter figures, while Commerzbank will discuss its adoption of international

accounting standards.

TOKYO By Gillian Tett

Tokyo stocks looks set for another lack-justre week, after moving between a relatively narrow band

during trading last week On Friday the Nikkei 225, the stock market index, closed at 15342.86, some 0.61 per cent higher than the close seven days earlier, after moving between 15880 and 15160 during the week.

This means that the index has now traded below 16,000 for some three weeks now, with little immediate prospect of a rally.

One factor dragging the market down is renewed concern about the economy and the threat of deflation. This pushed long term bond yields down to a record low of 1.285 per cent on Friday, as significant Japanese investors abandoned equities and moved their money into bonds instead.

There is little likelihood of this stance changing this week. A meeting of the Bank of Japan policy board on Tuesday appears unlikely to

cut interest rates. And with a spate of corporate results due this week, including those from the banks and construction sector, there could be more bad company

Meanwhile, the turnoil he Indonesia is dampening sentiment across the Asian region, including Japan.

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COMPANIES DIARY

foreign hands.

Consumer spending fall slows Matsushita

Matsushita Electric, the Japanese electronics and engineering company, is expected to report annual pre-tax profit of Y348bn-Y351bn on sales of Y7,850bn-Y7,870bn on Wednesday amid slower domestic consumer spending and weaker regional demand as a result of the currency crisis, analysts said.

The company forecasts pre-tax profit of Y351bn and revenue of Y7,870bn.

in the domestic market, sales of home appliances such as air conditioners fell substantially, particularly in the second half, because of weak consumer spending sulting from the succ sive failures of financial institutions, analysts said. In offshore markets, earn

ings were affected by weak demand for home appliances in south-east Asia but received some support from sales of audio and visual products such as digital video recorders in the US and Europe, which remained strong, analysts said.

They said earnings were expected to remain weak for the year to March 1999, on soft demand in south-east Asia and the domestic market. However, there might be the second half as domestic consumer spending recovers, analysts said. AFX-Asia,

 Nippon Telegraph and profits. Telephone, Japan's dominant domestic telecommunications carrier, is expected on Friday to report pre-tax profit of Y553bn for the year to March, in line with the company's recent downgrade

They said the downgrade resulted from a cut in the iffs which moderated revenue growth and profit mar-

The company recently cut its pre-tax profit forecast for the year to Y553bn from Y562bn, while cutting estimated revenue to Y9,570bn from Y9,580bn. The net to Y263bn from Y268bn. NTT said the February

1997 cut in long-distance tar-

iffs sliced Y10bn off the year's revenue and had a direct impact on pre-tax In the year to March 1997, NTT reported pre-tax profit losses on its investment in of Y444.5bn on revenue of its PHS units. AFX-Asia,

Y8.820bn. NTT DoCoMo said recently it would announce an annual pre-tax profit of

Y2,620bn. The previous profits expected by Goldman year's pre-tax profit was Y133.3bn, achieved on reve-While NIT is expected to

enjoy sustained earnings

growth, led by its NTT DoCoMo unit, the focal point is the restructuring of its lossmaking personal handy phone operations, analysts In early March, NTT said

it would provide Y67hn in the year to March to help its PHS units write off accumu-

NTT DoCoMo also said it would set aside Y36bn for the same reason, while sustaining a further Y7bn provision to write down capital

UK's big three brewers to ter down from £195m for the

Sachs to be up about 4 per cent at £324m. Investors will be looking for news on the reshaping of the group which has taken part in transactions worth more than £4bn in the past six months. Although it has now withdrawn from tenanted pubs. Bass, headed by Sir Ian Prosser, is a market the high street will be

 First-quarter figures from Royal & Sun Alliance, the UK's leading composite insurer, are expected to be hit by claims relating to bad weather that hit the UK and Canada in January. Analysts' forecasts range from £115m to £140m for pre-tax operating profit in the quar-

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Alfied Leisure 0.35p AVCO FRN 2000 £186.84 BASF Br DM2. Blue Circle Inds 6%% Bds 2002 268.75 Caradon B 3.007813p Caterpiller Inc \$0.25 Cattles 6.55p CMG 5.2p Daiwa Overseas Fin Notes 2004 \$9500 Edinburgh Fund Managers 17p Fennica No1 BND 2025 \$3085.17 Do Cless B 2025 \$3246.06 Do No2 BND 2024 FMI(20777.80

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TT Group 5.54p

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TODAY COMPANY MEETINGS: Fidelity European Values, 25, Lovat Lane, EC, 12.00 Lopex, Fitzalan Suite, The Howard Hotel, Temple Place. WC, 11.30 South Country Homes Southwark Towers, 32,

10.45 London Bridge Street, 11.00 Yorkshire Grp., Village Hotel, 186 Otley Rd., Headingley, Leeds, 2.00

BOARD MEETINGS: Fine Art Devlots Style Hidgs interims: Cambridge Antibody Tech Celttech Diploma Paragon

TOMORROW COMPANY MEETINGS: Ash & Lacy, Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, 10.30 Bostrom, Stone Circle Road,

Round Spinney, Northampton, Cheisfield, The Cheisfield Room, Royal Festival Hall, The South Bank Centre, 11.00

Clarkson (H), 12, Camomile Street, EC, 11.00 Edinburgh Fund Managers, Donaldson House, 97, Haymarket Terrace, Edinburgh, 12.15 Next, New Connaught Rooms, Great Queen Street, WC,

Slough Estates. The Abraham Lincoln Room, The Savov Hotel, Strand, WC, 12.00 Wolstenholme Rink, Penny Farthing Suite, Last Drop Hotel, Bromley Cross, Bolton,

BOARD MEETINGS: Finals: British Energy Merchant Retail Group Warnford Invs Interims: Berisford Care UK Compass Group Enterprise Inns

Imperial Tobacco **■ WEDNESDAY MAY 20** COMPANY MEETINGS: Astec (BSR), Skinner's Hall, 8½, Dowgate Hill, EC, 11.00 Brixton Estate, 22-24, Ely

Place, EC, 12.00

Hozelock

Bustzi. The Cafe' Royal. 68. Regent Street, W. 11.00 Delphi, The Maytair Inter-Continental Hotel, Stratton Street, W, 10.00 Home Counties Newspapers, Naval & Military Club, 94, Piccaclilly, W, 10.30 **80ARD MEETINGS:** Finals:

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Young (H)

E THURSDAY MAY 21 COMPANY MEETINGS: Epwin, Mendip Suite, The Aztec Hotel, Aztec West Business Park, Almondsbury, Bristol, 12.00 First Russian Frontiers, 3 Finsbury Avenue, EC, 12,00 Park Estates, The Liverpool Moat House Hotel, Paradise Street, Liverpool, 12.30 Royal Doubton, Minton House, London Road, Stoke-on-Trent, Straffordshire,

BOARD MEETINGS:

Creative Publishing Exploration Co. PowerGen Southnews Storehouse Interims: Morgan Grenfell Equity

FRIDAY MAY 22 COMPANY MEETINGS: Fleming Mercantile Inv, 25, Copthall Avenue, EC, 3.00 Ramco Energy The Marcliffe at Pitodels, North Deeside Road, Aberdeen, 12.30 Vero Gro., Electron Way. Chandlers Ford, Eastleigh, Hampshire, 12,30

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International, will consider the impact of global over-capacity within the sector and the need to crease and develop new markets will also be among the issues addressed. Contact: Lucinda Roberts, FT Conferences Tel: +44 171 896 2120 Fax: +44 171 896 3696 Email: fic@pearson-pro.c www.ficonferences.com

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Fed rate rise fears

For the first time in months, many investors think the Federal Reserve might raise US rates.

The bank's open market committee meets on Tues-day. Cary Leahey, chief US economist at High Frequency Economics in New York, puts the chance of an increase at one in three, but he has a gut feeling that the Fed might upset those odds. On the face of it a rate rise

has yet to frighten the Fed. Furthermore, with the Asian crisis rearing up again, the last thing the bank wants to kets with a rate rise.

However, Alan Greenspan, Fed chairman, has warned before about the stock market boom, yet it has gone merrily on. The US economy grew at more than 4 per cent economic data which is in the first quarter, and the expected throughout the unemployment rate is rap-

idly falling towards 4 per cent. That must produce wage inflation one day, say many economists. The Fed will want to act before that

happens.

A US rate rise, because it is not priced into the market, could upset stocks and bonds and thus damage the dollar. That happened in 1994. Yet if rates stay on hold, the dollar might fall too, as investors anticipate the day when German yields catch up with US levels.

us inflation is running at starts the week vulnerable: it has been rallying against the year, and average earnings growth, though climbing. has yet to frighten the Park Japan might intervene for its currency, and despite growing evidence that the European economies are accelerating. The dollar faces another test the day after the Fed's meeting, when the US trade deficit for

March is revealed. The D-Mark could benefit from more strong German

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EURO CURRENCY INTEREST RATES

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PRIVATISATION TRUST PLC

£75,000,000

February 1998 to 27th May 1998

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150 795	

Floating Rate Notes due 2004 For the three months from 27th

ive, the Notes will carry an nterest rate of 7.8125% per ann The interest amount payable per £100,000 will be £1,926.37 on

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8th May 1998,

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Undated Primary Capital Floating Rate Notes (Series 2)

In accordance with the provisions of the Notes, notice is hereby given that for the six months period (184 days) from 18th May, 1998 to 18th November, 1998 the Notes will carry interest at the rate of 6.0625 per cent. per annum. The Interest payment date will be 18th November, 1998. Payment, which will amount to US \$309.86 per US \$10,000

Note and US \$1,549.31 per US \$50,000 Note, will be made against surrander of Coupon No. 25. West Merchant Bank Limited Agent Benk

Market Operator to run the Within Day Gas Market in **Great Britain**

CONTRACTS & TENDERS

Transco, as part of BG plc, currently balances the gas transportation network in Great Britain using the flexibility mechanism, as defined in its Network Code. Over 1997/98 winter period Transco bought and sold a total of 14TWh of within day flexibility gas from

The Director General of Gas Supply and Transco consider that the long term energy balancing regime may be better served by a within day gas trading market which will be subject to a full consultation during summer 98. This would facilitate anonymous within day gas trades which, it is anticipated, will improve the competitiveness in the market for within day gas thereby enhancing the efficient operation of the gas network.

The operation of this market should provide excellent opportunities as the European gas industries are liberalised.

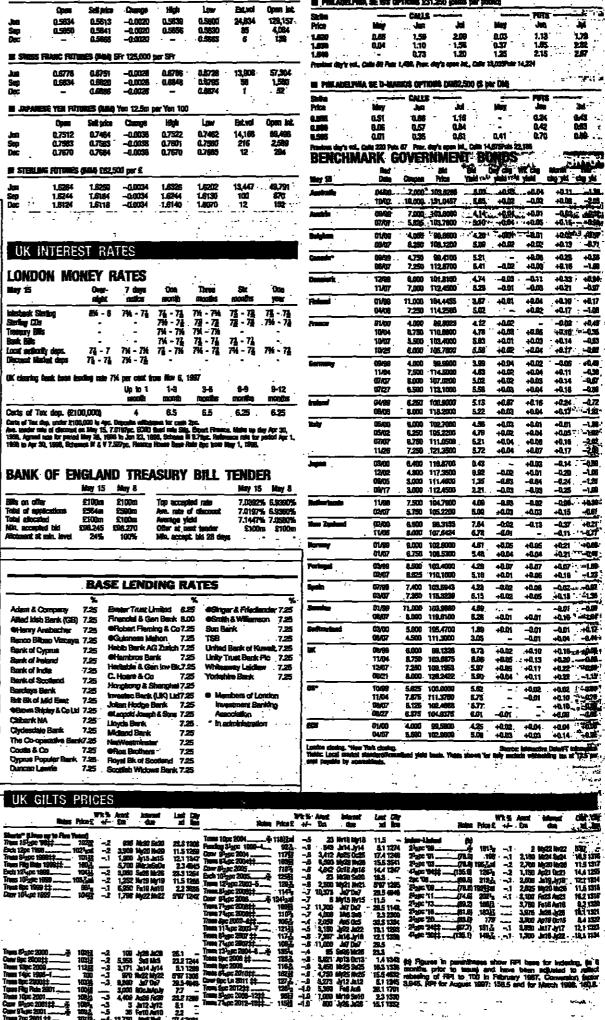
An organisation with relevant market operator experience is being sought to establish and run an anonymous, screen based trading system, to become operational later this year. Proposals for both cleared and uncleared markets and innovative forms of self-financing will be welcome. The successful applicant will be required to interface trading activity with Transco's IS systems and set up the infrastructure to allow trading by multiple

Expressions of interest outlining experience and demonstrating relevant capability are requested by 23 June 1998. This will be immediately followed by a formal tendering process, if appropriate.

Interested parties should contact Transco on 0121 623 2460, in the first instance to obtain an information pack and further details, or you can contact Ofgas on 0171 932 1669.



Transco



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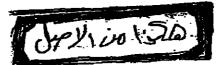
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EURO PRICES

NT BONDS

EUROPEAN OVERVIEW

The Federal Reserve open ments. The Federal Reserve open markets committee meets in the US tomorrow and although it is expected to keep interest rates on hold, there could be nervousness in European financial maring the process of the server of

emptive strikes.

As the Asian spotlight on the week.

As the Asian spotlight on the week.

Some European markets fared much worse, with the rotes to the Hong Kong and Tokyo financial markets, concerns spread through to Europe. Equities tailed off

Surge Strikes.

Some Finday, activity to drive the markets activity that had previously pushed the sector higher.

In the week.

Some European markets interested in selling its 75 per cent stake in entertainment subsidiary PolyGram underlined the potential for further restructuring, but there were few deals.

Surge Strikes.

Some European markets interested in selling its 75 per cent stake in entertainment subsidiary PolyGram underlined the potential for further restructuring, but there were few deals.

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- -0.016

towards the end of the week Bond markets in mainland Indeed denials on Friday and the core European bond Europe moved mostly higher by Banca di Roma of markets gained from a shift during the week, as Asia rumours that it is to merge into more defensive invest- encouraged a flight to safety, with Banca Commerciale and Bundesbank officials Italiana sent Italian bank

kets in advance, given the The Eurotop 100 index fell There was little corporate absence of the acquisition Fed's reputation for pre- 5.23 to 2,312.32 on Friday, activity to drive the markets activity that had previously

FTSE Actuar Precuodad in curgo						n series	
Mer 15		-					
National & Regional Markets	Eca Index	Day's	change points	Yield gross %	제 1년 기반	Total reta (Ecs)	
FTSE Estateo 300	1222.34	-0.22	-2.88	1.95	11.25	1243.56	•
FTSE Europo 100	2812.32	-0.19	-5.23	201	9.00	996.63	
FTSE Ebioc 100	1016.79	-0.01	-0.06	1.61	3.55	1020.39	
							•
FTSE Eurotee 300 Regio	1268.06	-0.02	-0.25	1.59	7.00	1290.30	
Examplinoi CAK .	1138.70	-0.02	-125 -5.87	281	17.40	1250.50	
Europe Ex-Europioc	1186.99	-0.41	-9.6r -4.90	231	14.23	1214.00	
Europe Ex-UK	1270.64	-0.09	-1.12	1.52	7.75	T281.94	
FISE Eurotep Industry S							
ADESCORAÇES	1058.20	<u>-0.41</u>	4.31	263	13.08	1085.03	
Extractive industries	949.05	-0.53	-5.06	2.73	0.00	949.05	
Oil, integrated	1013.22	-0.44	-4.45	263	B.09	101B.51	
Oil, Exploration & Prod	1069.09	+1,29	+13.91	2.23	0.00	1089.09	
CERRAL MORSTRES	1212.09	+0.02	+0.21	_ 1.77	9.99	1225.82	
Construction	1035,37	+0.85	+8.77	293	0.00	1035.27	
Building Matte & Menche	1038.47	-0.29	-3.06	2.56	0.00	1038.47	
Chesticals	1025.45	+0.51	+5.23	210	7.89	1034.62	
Diversified Industrials	1010.35	-0.45	-4.61	1.88	4.24	1014.59	
Electronic & Elect Equip	1052.38	-0.52	-5.49	1.57	0.00	1052.38	
Engineering	1028.34	+1.02	+10.34	215	0.37	1028.71	
Paper, Poig & Printing	1039.31	+0.43	+4,45	2,27	0.00	1839.31	
CONSUMER GOODS	1153,26	-0.23	-271	1.62	9.80	1175.75	
Automobiles	1053,18	-0.15	-1.60	0.85	1.98	1055.14	
Alcoholic Beverages	995.22	-0.96	-9.61	232	1.86	997.71	
Food Producers	1005.08	-0.13	-1.29	1.61	2.05	1007.13	
Household Goods & Texts	1040.87	+0.10	+1.09	1.18	8.72	1041.51	
Heelthogre Phermaceuticels	1011,19 990,74	+1.29 -0.10	+12.85 -1.01	2.27 .1.25	9.00 1.03	1011.19 991.77	
Tobacco	984.11	-1.63	-16.30	4.32	0.00	984.11	
SERVICES	1160.40	-0.18	-2.10	1.94	7.62	1177.41	
Distribution	994.49	-0.49	-4.93	0.86	2.70	997.18	
Leisure & Hotels	1018.25	+0.56	+5.62	238	0.00	1016.25	
Media .	1032.31	+0.06	+0.61	223	0.00	1032.31	
Retailers, Food	973.70	-1.55	-15.29	2.08	1.34	975.04	
Referen, General	1005,45	+0.03	+0.30	229	0.00	1005.45	-
Telecommonlections	999.23	-0.05	-0.46	1.71	T00	994.23	-
Brewerles, Polos & Rests	961.58	-0.33	-3.18	2.80 -	0.00	961.50	. !
Support Services	980.93	-0.56	-5.54	1.32	3.20	B84.13	
(Resport	1014.54	-0.11	-1.10	237	0.59 2.23	1015.14	- 1
aformatica Technology	. 998.92	+0.73	+7.27	0.41		1001.20	٠,
TILITIES	1282.58	+0.34	+4.28	3.38	23.71	1321.95	i
lectricity	974.80	+0.58	+5.38	3.52	\$1.00	974.80	į
ins Distribution	990,71	-0.33	-3.26	1.86	83.72	1080.84	. !
	965,41	+0.21	+2.00	5.23	0.00	985,41	
TIANCIALS	. 1343.42	-0.39	-532	1.87	13.60	1365.14	ì
ants, fisiali	983.05	-0.62	-6.13	212	2.97	985.96	ı
Marianto .	974.05	+0.01	+0.10	1.30	3.23	977.24	
ite insurace	970.54	+0.47	+1.57	- 1.84	3.19	973,76	
Mer Financial	1907,20 1024 21	-1.76 -0.15	-18.01 -1.69	1.94 2:15	0.00 0.00	1007.20 1024.21	

May 15	Currency	EURO RA'	Camps en der	(Transpe ou dents	(Juage or west	Campe wink %	S per euro			- '	•			
	code	the loan	21 40			- A	1.20							
Empe Austrie	ATS	14.068881	+0.001B	0.01	+0 0031	103	1.18							
Acceute Balakum	A13 86F	41,250462	-0.0133	-0.03	+0.0167	9.04	- 1							
Casch Resebilic	22X	35.341884	-0.1732	-0.67	-0.4504	-1.22	1,15	L						
Demental		7.613439	-0.0012	-0.03	-0.0024	-0.03		AA.			[
Palant	FM.	8.075235	+0.0000	0.01	+0.0003	0.01	1.14 🔻				-			
France	rae Par	6.70524B	+0.0007	0.01	+8 0021	0.03		7		ורה	ι.			
Serusov	DEM	1,999118	+0.0001	0.01	-8.0004	0.02	1,12		^	 	— \			
Greace	. 650	345.822474	-0.0793	-0.02	-2.3848	-0.68	1.30	ካ	4.1	•	•	\ A: .		J
Hungery	HEF	236,529734	-0.0624	-0.03	+0.0375	0.02	1110		74				1	
Indeed	ø	0.792847	-0.0013	-0.15	-0.0029	-0.38	1.56					141.	PMI	
lady .	m.	1971,118524	+0.2950	201	-0.3322	-0.02	_	-	יוןן:				-V-	
Laterations	1115	41,250462	0.0133	-0.03	+0.0167	0.04	.1,06		¥					
Notherlands	M.C	2.253076	+0.0005	0.02	+0.0008	0.03	1.04	_						
HETWAY	NOK	8.400245	+0.0195	0.23	+0.0429	0.51								<u> </u>
Poland	PLN	3,829586	+0.0051	0.13	+0.0182	0.50	يطا		199	7			98	1
Portugal	PTE	204,815874	+0.0148	0.01	-0.2793	-0.14	Seatter FTSE A	to the second				-	••	
Romanie	ROL	9533,235710	-18.0900	-0.14	-94.3733	-0.98		, , , , , , , , , , , , , , , , , , , 						
Puesta	RUB	6,934181	+0.0340	0.49	+0.0141	0.20								
Slovalda	SKK ESP	38,450630 169,651196	-0.0429 -0.1262	-0.11 -0.07	-0.0860 -0.1597	-0.22 -0.89	EUROZO	JNE CU	RREN	CY CO	INVER	GENCE	4	
Spala Swaden	SEK	8.684503	+0.0329	-0.07 0.38	+0.0986	1.15								
Switzariend	OF.	1,662004	-0.0023	-0.14	-0.0073	-0.44	Branteral comm		-					
United Kingdom	EEP	0.688705	-0.0007	-0.11	-0.001B	-0.27		Potest	Market	DEF Sec	Week	Forward	Forward	D
ECT.	ECU	1,015045	-0.0001	-0.01	-0.0009	-0.08	May 15		rate_	YESKI %	ago %			<u>ab</u>
Americas		-					Assuria	7.03552	7.0365	10,0	0.01	7.0362	3.85	- (
Brack .	EPL.	1.256847	-0.0027	-0.21	-0,0069	-0.53	Belgium	20,6255	20.6343	0.04	0.02	20.6373	3.81	
Canada	CAD	1,627688	-0.0005	-0.03	+0.0067	0.41	France	3.35386	3.3541	£01	-0.01	3.3538	3.77	-
Mexico	MOOL	9,553997	~0.0058 ~0.0021	-0.06	-0.0273	-0.28 -0.89	Finland Imiend	3.04001 (1.402678	0.039 3.039 3.039	-0.03	-0.02	3,0409	3.89	
United States Pacific/Middle Br	USD	1,122217	-670051	-0.19	-0. 007a	-0.09	ngagar.	980,002	965,9942	-1.51 -0.4	-1.13 -0.37	0.4012 991.1955	5.66 4.64	- 2
r manuar menera da Acestralia	AUG.	1.788965	-0.0027	-0.15	+0.0148	0.84	(Transcoportics	30.8255	20.6343	9.04	0.02	20,6873	3.81	
Hone Xoon	HKD	8.805052	-0.0153	-0.18	-0.0819	-0.71	Metheriands	1.12674	1.127	0.02	0.01	1.127	3.79	
ومورون	JPY	150.466892	-0.2640	-0.18	+0.5892	0.39	Portugal	102,505	102.4531	-0.05	0.1	102,696	4.17	
Singapore	SBD	1,841559	-0.0213	-1.14	+0.0132	0.72	Spein	85,0722	84.883	-0.25	-0.13	85,1001	4.24	6
South Africa	ZAR	5.704230	-0.0131	-0.23	-0.0164	-0.29	Germany	1			_		3.79	
SOUTH: PTSE MINO		is Table gives a Str Ophing GDP weigh	COUNTY, SPICE		The Both again		Source: The Wi	4 Codepany, Fi	and faller, and	bilggeral co	be 4554	by BJ May 2/	t torough r	-
	the table the	app and the mood are defined only mande					consisted by in calculated by in calculated by in	in 31/12/98 k perhanga salan 1214 formud in	inconfessed in OUT lest come throat color for	om resting (5 y DEM ans 7 31/12/08;	potes; son dilignace DEM turks	verd interest in a between imp rd interest rate	des are the Sed forward	10 km 1 km 1 km 1 km 1 km 1 km 1 km 1 km 1
BONDS	_													

	<u></u> <u>-</u>					<u> </u>	Seighan (Cingalean of) France (Piep of) Italy (Piep of) Portogal (Piep of)	03/08 04/05 05/08 06/08	5.750 5.250 5.000 5.375	N/A N/A AA AA-	104,600 101,429 98,550 101,390		+0'05 +0'05	+0.14 +0.13 +0.09 +0.15	+0.01 -0.07 +0.06 +0.08
ECU							Bare leases Abbey Mali Treas Sry Gen Blactric Cap Crp Cest Novirolibank Cred Local de França	02:03 10/04 04/08 04/08	4,875 5,500 5,250 5,250	AA AAA AAA	100.060 102.670 100.300 89.020	4.99 5.21	+0.01	+0.30 +0.18 +0.12 +0.14	+0.15 +0.15 +0.08 +0.25
Gen						·	Beu lustes Bayer Nyso & Web Sk Cred Foncier France Euro Inv Bank ABN Amro Hidg. Ny		5.000 8.375 5.250 6.375	A+ M M-	101.000 114.390 102.320 108.470	5.42 4.79	+0.02 +0.03	+0,19 +0,10 +0,12 +0,08	+0.18 +0.58 -0.05 +0.36
e la	3 5	7	10 materity	. 15	20 30	·.	Source: Interactive Dat sovereigner and fangist boads are lessed in t	in into one i	بية 1000 وزا	De 1/1/90	Early Institute				
/ERNM	ENT_BO					••	EUROZONE			PREA	_	ECU	_		
<u> </u>		5 yrs	7 911	10 yrs	20 yrs	30 yrs	May 15	S&P Rating	Red claim	Coops	Carregicy code	Spream	Sprei wka		proved in ago
	-0.14 -0.10 -0.16	-0.03 +0.01 +0.03	+6.05 +6.05 +0.04	+0.03 +0.03	+0.01 +0.02 -0.32	-0.04 -0.02 -0.59	KPW France Telcom Hallbax	MA M-	01/09 11/06 07/07	5,000 6,250 5,825	DEM PRF DEM	-0.00 +0.17 +0.10	+0.3	90 -	+0.06 +0.30 +0.31

GOVERNM Pay 15	ENT BOI	ND SPI 5 yes	READS	VS EC	Ü 20 y rs	30 yrs
76					20 310	~
Austria	-0.14	-0.03	+6.05	-0.01	+0.01	-0.04
Belolum	-0.10	+0.01	+0.05	+0.02	+0.02	-0.05
Reland	-0.16	+0.03	+0.04	-0.01	-0.32	-0.56
France	-0.19	-0.06	-0.07	-0.06	-0.03	-0.10
Germany	-0.23	-0.05	-0.02	-0.14	+0.01	-0.12
instanci	+0.58	+0.21	+0.15	+0.11	+0.15	+0.22
	+0.22	+0.21	+0.17	+0.17	+0.24	+0.09
weedhoorn	-0.13	+0.01	+0.05	+0.02	+0.02	-0.02
Herherlands	-0.13	-0.05	-0.04	-0.03	£0.03	-0.11
Portogal .	+0.02	+0.04	+0.08	+0.05	+0.37	+0.34
Spalin	-0.82	+0.05	+0.11	+0.07	+0.20	+0.28
'QU?s"						
Denmark	+0,42	+0.31	+0.26	+0.17	+0.11	+0.15
Ereace	+5.59	+4.33	+3.40	+2.81	+2.50	+2.23
Sweden	+0.47	+0.33	+0.24	+0.17	+0.15	-0.12
UK .	+2.18	+1,38	+7.16	+0.82	+0.50	+0.10
Source: Interacting D	ata/Fi Interresida	. Table falce	COGNO COR	ention constan	et maketiy ka	esury vield
CERCO TO ANGE COST						
CERTAIN IN SUCE COM	ari mi baite		SEE 6592	1 CE (1974)	n restriction g	47

May 15	S&P Rading	Red date	Coops	Carregicy code	Spread	Spread WK ago	Spread mith ago
KPW	AAA	01/09	5,000	1084	-0.02	+6.00	+0.08
France Telcom	AA+	11/06	6,250	FRF	+0.17	+0.20	+0.30
	AA.	07/07	5,625	DBK	+0.16	+0.18	+0.31
ing Berik AW	A4-	01/08	5.500	NLG	+0.15	+0.19	+0.26
Bayer Hypo til Bk	A+	05/05	6,750	M.	+0.28	+0.33	+0.77
Cred Foocier	A	02/03	7.250	DEM	+0.35	+0.34	+0.89
Thomson-Brandt Int	A-	03/04	6.375	FRE	+0.33	+0.35	+0.65
Becerule des Baux	888+	03/04	6.250	FRF	+0.30	+0.25	+0.58
Banck of Chilsa	BB8.	07/90	7.125	DEN	+0.78	+0.69	+0.47
Nast Blkof Hungary	BBB-	06/01	9,000	ATS	+0.66	+0.75	+1.44
Koras Dev Bank	B+	11/02	5,625	₽₽₽	+4.42	+4.15	+4.72
Source: Interactive De broadly representative	de/FT Into	pedoe. Tab pack raties	de shows y	ick) uprotek oksaled in S	to the fo	t cave for	jament of

Source: Edulyant of Ff Information. Subject to revision next deg., 44 menolistic.	Terrethoul moder Economic Security in a suphement leads mark of the American Short Scholary, FIRE Security Indian are completely by FEEE International, of suphement yell communicated 45592 for the partie and Exist 100 below east \$5592 by the Economy 100.				
FTSE EUROTOP 300					
	Prince Constitutes Mrt. Prince Constitutes Mrt.				
	Mile Capi Miles Mil Pale Cap Miles Int. Sen +ur- Ecopol (el 16 Runs (Eco) +ur- Benfre) (en 16				
ALCOHOLC BENERAGES DISTRIBUTORS Film-form 9.23 - 9.5 21.8 4.0 Million Shimm 1992/27 - 42.8 10.0 4.5 8.5	HOUSEHOLD GOODS & TEXTILES PHARMACEUTICALS phasmic				
Paint-Own 9.23	Marchard				
Minister 32.3 -5 19,4 22.5 M.1 UMM 1948 -3 17.1 15 17 DAVERSITED MOUSTRIALS	Controlate Con				
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Read Circle S.568 - 4.2 SE1 3.8 SEE 2.46 - 5.27,49.3 - 5.68 12.46 - 4.1 5.5 - 1.1 SE TREE 12.37 - 13.3 32.7 3.6 SEE 12.37 - 5.67 3.8 32.8 42.8 42.8 42.8 42.8 42.8 42.8 42.8 4	HI 124 42 247 2812 29 P&O 1305 - 22 119 43				
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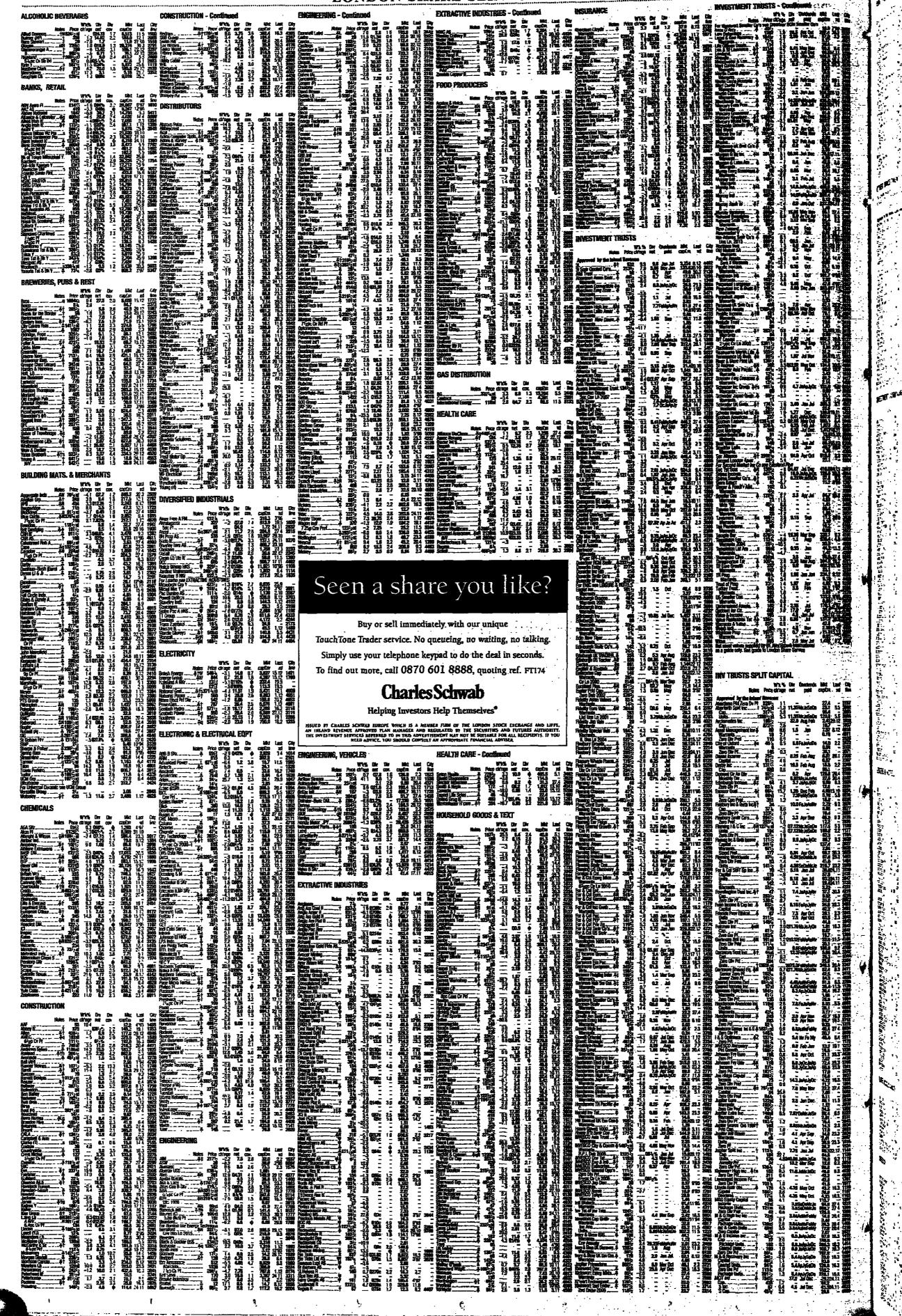
This is how the euro would affect today's stock.

Soon it will affect your accounting procedures, long term investments, contracts, pricing strategies and even your salary.

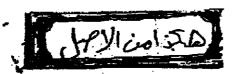
Find out how IBM can help. www.ibm.com/euro

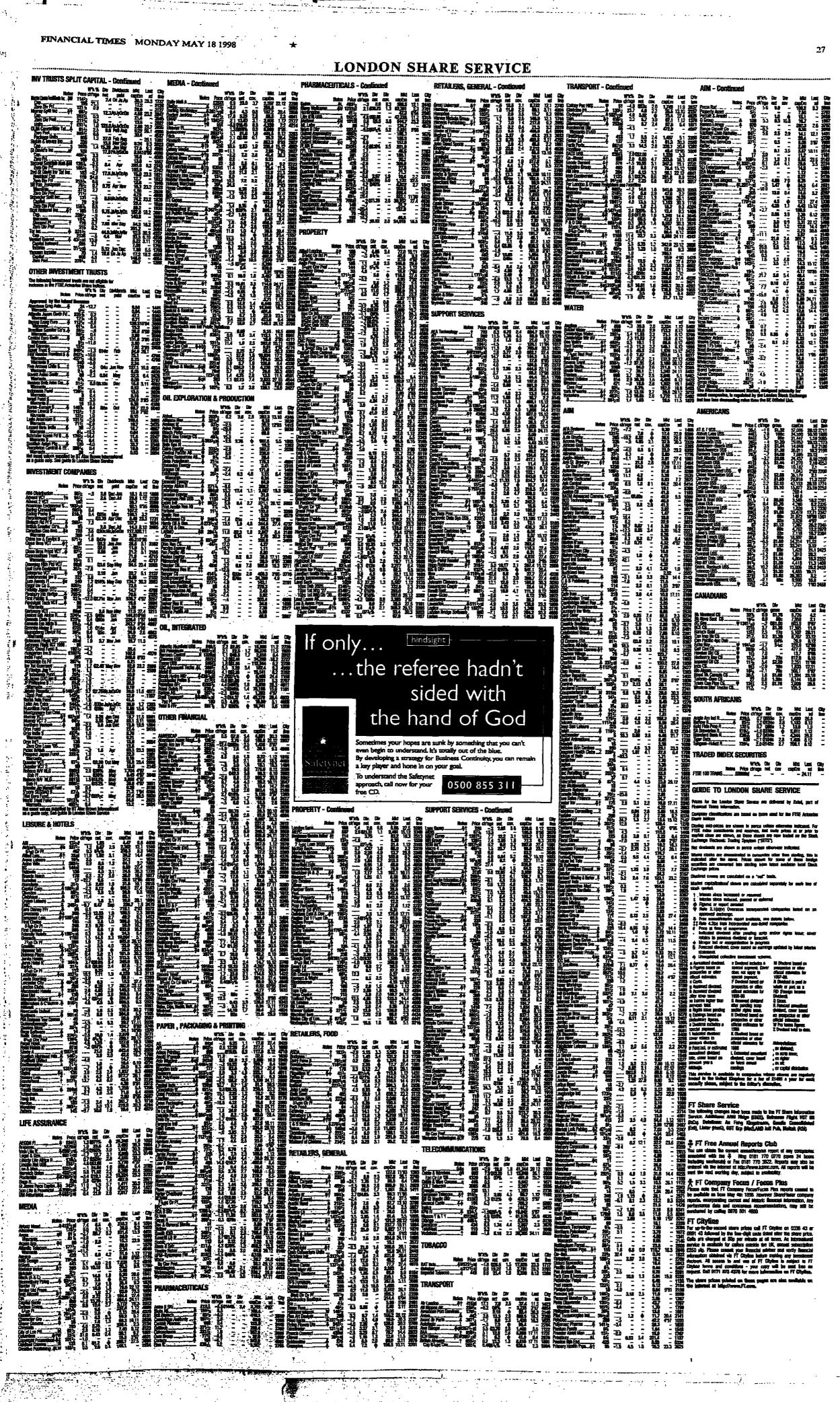


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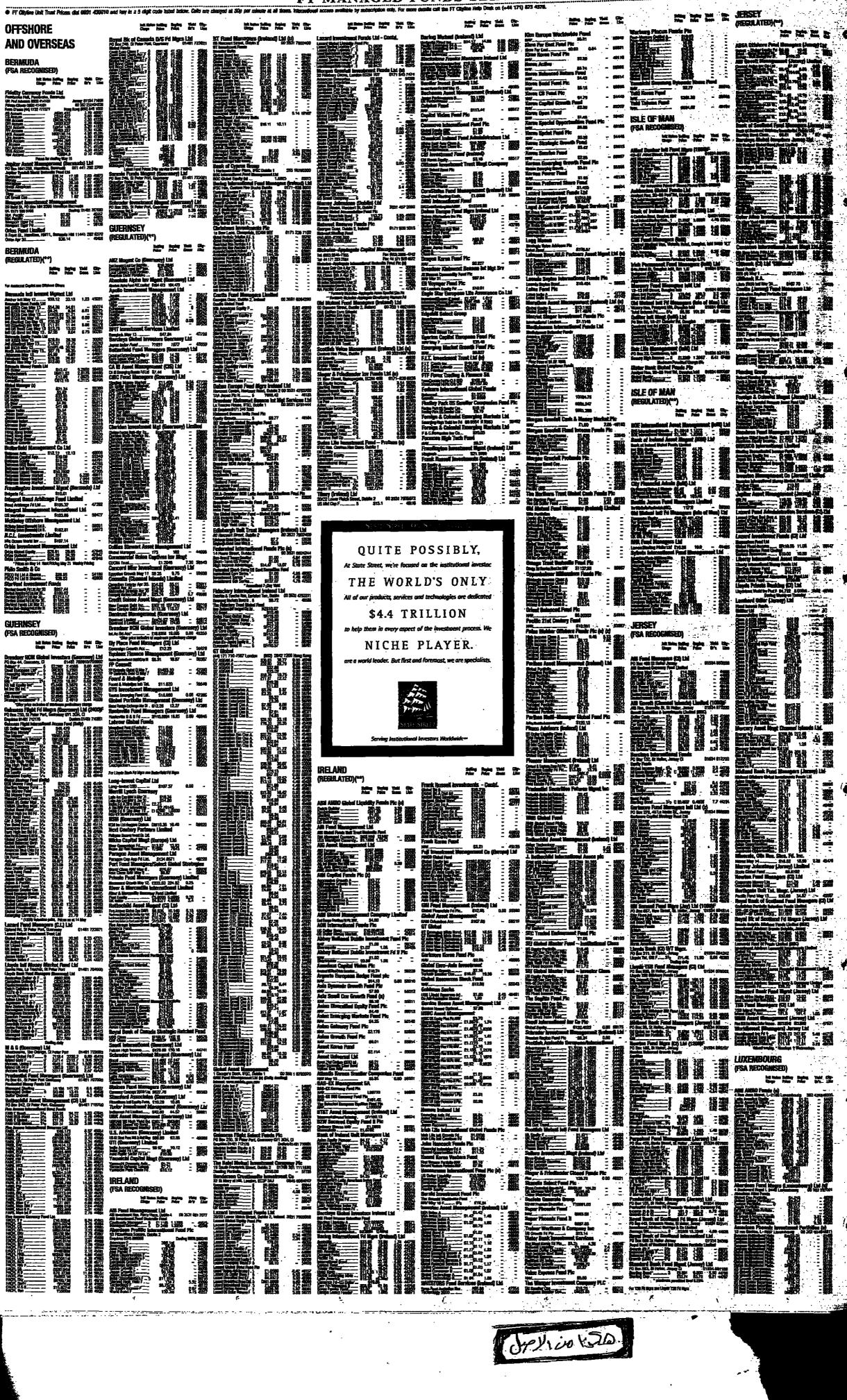


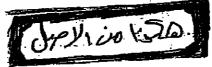


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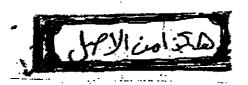
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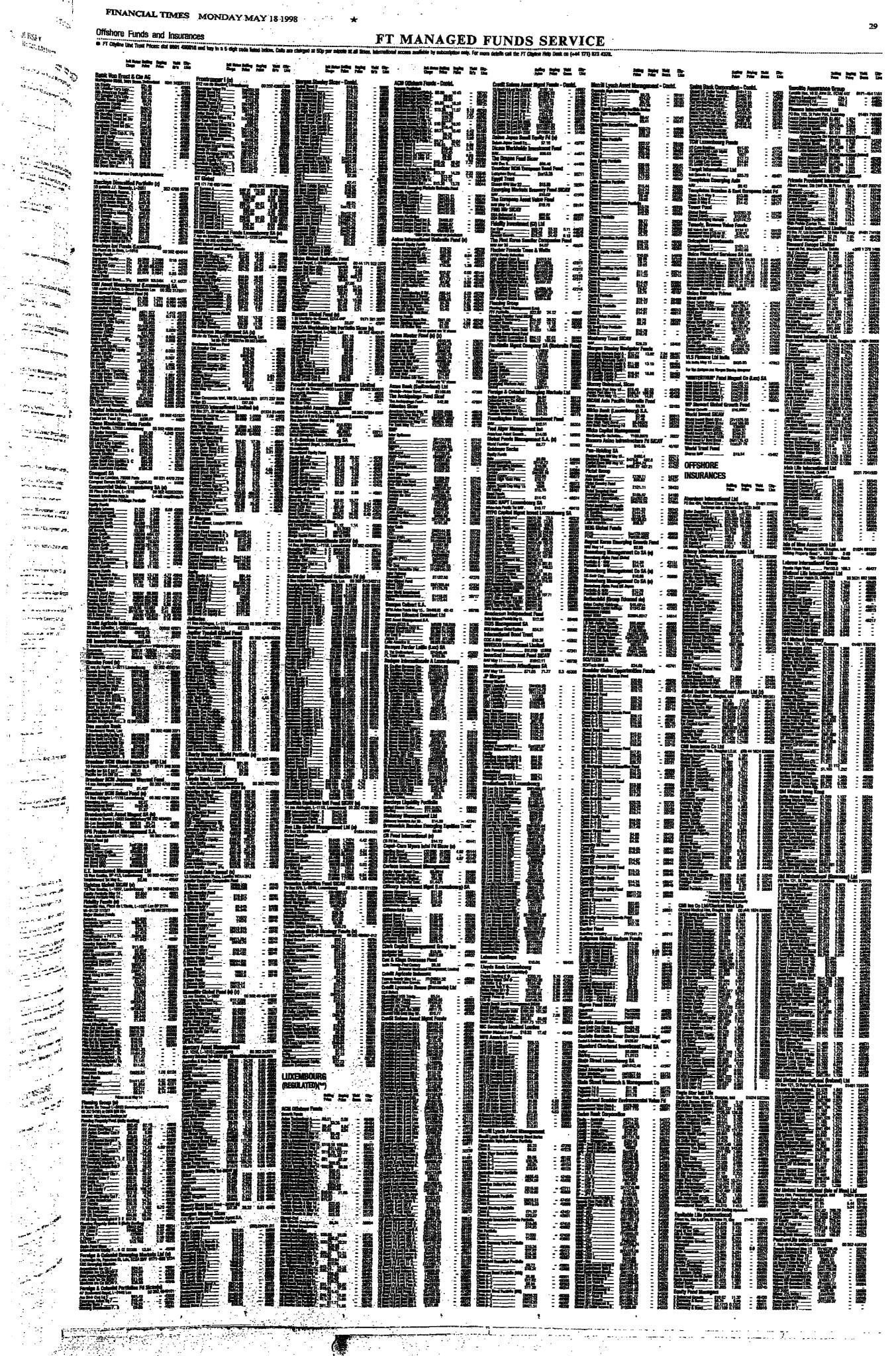


FINANCIAL TIMES MONDAY MAY 18 1998

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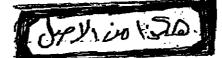


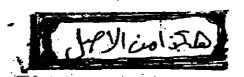
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Birmingham welcomes the largest convention of its kind in the world. (Needless to say, it's going to be a roaring success.) Lions Clubs International Convention June 29th - July 3rd the nec Bırmmgham birmingham Triand List (fig.)

Revis Stars Found (Managers) (Engineer) List

Stars (Managers) Found (Managers) (Manager





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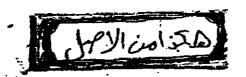
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ŧ	15 14 13 High Low High Low assured Aprilled Total April 1991 (column part of the column p	NYSE 9200	15 14 13 High Low High Low 15 14 13 High Low High Low
	(13/5) (9/1) (13/5/88) (9/7/32) May 15 May 14 May: Home Books 104.70 104.84 104.78 165.48 184.42 185.48 54.99 MYSE 618.048 578,380 602 (15/7) (11/5) (15/1/89 (17/0/81)	2 May 15 May 14 May 13 May 14 May 13 May 13 May 14 May 13 May 15 May 14 May 13 May 15	Maded 225 15242.86 15307.89 15343.87 17454.34 14664.44 38915.8 85.25 CSC 40 3890.23 4011.98 4019.76 4019.76 2862.54 4019.76 984.61
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•	Day's man State to particle \$100.52 (\$111.94 (Material)) \$\frac{1}{2} \text{ ACTIVE STOCKS}\$	# BIGGEST MOVERS Hiday Does Day's Day's 1990	Note Brusy 5,555,0000 1240 +57 Topo Order 131 +25 +33.6 El Apparate 1 1052/73 844 -10 Sudecco 15.5 +2.45 +18.8 Note Brusy 5,555,0000 1240 +57 Topo Order 450 +50 +14.1 Person 34 705.277 320 -3.5 Transmiss 785 +91 +12.1
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Kohl's big chance

Helmut Kohl, Germany's chancellor. today delivers a speech which may turn out to be the most important in his long campaign for an unprecedented fifth term in office. Mr Kohl's address to the annual congress of his Christian Democratic Union in Bremen must put new life into the CDU's flagging election campaign if he is to have a chance of overtaking the large opinion poli lead of Gerhard Schröder, the candidate of the opposition Social Democratic Party, by the general election on September 27.

Trade agenda

The World Trade Organisation holds its second ministerial meeting and celebrates the 50th anniversary of the international tracing system. More than a dozen heads of government will be in Geneva to join the birthday bash including Bill Clinton, US president, Tony Blair, UK prime minister, Nelson Mandels, president of South Africa, and Fidel Castro, Cuba's president. Groups opposed to the impact of globalisation on local communities and culture are planning big demonstrations, prompting tight security measures in the Swiss city.

Modified versions

European Union ministers will try to agree in Brussels on controversial plans to label food made from genetically modified maize and soya. Environmental and consumer groups say the proposals, put forward by the European Commission, are inadequate and several countries oppose a suggestion that a "may contain" label should be attached to goods when it is unclear whether genetically modified organisms are present.

Dominican vote

Elections for 30 senators, 149 members of the Chember of Deputies and more than 100 local officials are held in the Dominican Republic.

Socialist event

Yassir Arafat, Palestinian leader, Ehud Berak, former Israeli army chief, and Shimon Peres, former israeli prime minister, are among 400 politicians attending the Council of the Socialist International in Sweden. Main topic of discussion will global solidarity; sub-themes include strengthening. democracy, defending human rights and promoting initiatives for peace.

Boeing touch down

Boeing, the world's biggest aircraft manufacturer, makes its debut at the biennial ILA air show, held at Schoenefeld airport, Berlin, until Sunday





Democracy Beijing-style: Hong Kong voters go to the polls on Sunday for the first time since the return to Chinese control, but to directly elect only a third of 60 seats in the legisle

Russian attraction

Experts on the impact on health of electromagnetic fields gather in Moscow to discuss the work of eastern European scientists. The week-long meeting is part of a project by the World Health sation which is looking, among other things, at whether the use of mobile telephones can be harmful. The WHO says much of the research in eastern Europe has been unavailable to scientists elsewhere because it has been published only in Russian.

Grounding in air control

Airport managers from developing countries meet in Casabianca, Morocco. to discuss how to cope with hijackings and potential disasters. The week-long seminar, organised by Airports Council international, the Geneva-based world airports body, includes sessions on prevention techniques, security equipment, media relations and medical

Mushroom for improvement

Raising mushrooms in culture using dried water hyacinths offers a cheep and environmentally-triendly way for Africa to tap into the burgeoning \$9bn (£5.3bn) global edible mushroom market, according to a book published today by the United Nations Development Programme. The technique, developed by an environmental business foundation, converts water hyacinth, a parasitic weed, into a growth medium for

mushrooms. The medium can be fed to earthworms which are used subsequently for chickenfeed.

Non-aligned line up

Non-aligned countries meet for a three-day annual summit in Cartagena, Colombia, issues up for discuss include reorganisation of the United Nations, international co-operation, external debt, disarmament, development, the environment and poverty. Concerns about the fattering Arab-Israeli peace process and India's recent nuclear tests are expected to feature prominently in the disarmament debate. The 113 non-aligned nations will also look at ways of increasing their influence in the UN and the Security Council by raising the number of permanent members and right of veto.

FT Surveys Slovenia; World Trade System at 50.

Holidays

Canada, Cameroon, Turkmenistan.

TUESDAY 19

European Union telecommunications ministers meet in Brussels to discuss plans for a co-ordinated transition to the "third generation" mobile telephone

standard - UMTS, or Universal Mobile Telecommunications System - set to replace the existing GSM standard after about 2002. Other points on the agenda include a plan for safe use of the internet, including controlling harmful and illegal content, and more discussion on the dispute over US plans to reform the way the internet is managed.

Round the table

Deutsche Bank holds a research roundtable in Frankfurt on The British Economy and Britain's role within the European Monetary Union".

Duty free plea

treland will seek support from European Union finance ministers at their monthly meeting in Brussels for a study of the impact of a proposed abolition of duty free sales. It wants abolition to be reconsidered, aithough a decision to keep duty free sales would have to be agreed by all countries.

Flower power

The Cheisee Flower Show gets under way in London, Chanel, Cartier and



Christie's join forces to produce what is planned to be the grandest ever

horticultural show (To May 22).

FT Survey Shanghai.

WEDNESDAY 20

Greek strike cali

Greace's biggest labour confederation GSEE calls for a four-hour stoppage at all state corporations and banks as a prejude to a 24-hour nationwide strike on May 27 against the socialis government's privatisation plans.

FT Survey Responsible Business.

Holidays Sweden, Switzerland (half-days).

THURSDAY 21

FT Survey Reporting Britain.

Holidays

Benin, Burkina Faso, Cameroon, Central African Republic, Chile, Ivory Coast,

Togo, Austrie, Belgium, Denmerk, Finland, Prance, France, Germany, loeland, Luxembourg, Netherlande, Norway, Sweden, Switzerland Bangladesh, Indonesia.

FRIDAY 22

Peace deal test

The Northern kish peace deal will be pot. to referendums in Northern Ireland and the Republic of Ireland. Voters in the republic will also vote on amending their constitution to drop a long-standing territorial claim to the whole latend.

Expo '98 opens

The official opening of the Expo '98' World Fair, which runs until September 30, takes place in Liebon.

FT Survey Chicago.

Holiday Beigium.

SATURDAY 23

Apec issues

Finance ministers of the Asia-Pacific Economic Co-operation (Apac) group begin a two day meeting at Kanenes near Ceigery, Canada. They plan to discuss broad issues related to macroeconomic policies, capital flows, capital market development and infrestructure financing.

Imperial tour

Japan's imperial couple will leave Tokyo for a 12-day trip to Europe during whichthey will visit Portugal, the UK and Denmark, in the UK Emperor Akthito and Empress Michiko will by a wreath at the tomb of the unknown soldier. Former British prisoners of war and internets. plan a demonstration.

SUNDAY 24

Hong Kong poli

Hong Kong voters go to the polls in the first elections since the territory returned to China last July. The 60 seats in the territory's legislature will be determined by a complex series of votes, with only 20 sests determined by direct election. The pro-democracy camp argues that the playing field has been titled towards pro-Beijing parties. The smooth handover to Chinese sovereignty, however, has reduced the impact of the China issue. instead, voters' concerns are dominated by economic metters; Hotebly 1013 Unemployment aliable from the sleep downtum in greatified the regional

. . .

Γ.

Holidays_.

Buigaria, Ukraine, Complied by Roger Besi Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news Monday: Japan's trade balance for April may again

exceed Y1,000bn, because of imports performing more weakly than exports. Tuesday: The Federal Open Markets Committee decides on US interest rates. Some reports suggest a chance of an increase, but recent GDP deflator data and Asia worries are likely to help keep rates on hold. US housing starts for April are also released, with market forecasts of slower growth.

Wednesday: The provisional for May is expected to show a moderate increase similar to April's 0.2 per cent monthly rise. But the armuel rate will benefit from the effect of lest year's rise in energy prices. Thursday: The US Treasury budget statement for April is forecast to record its largest-ever monthly surplus after reports of individual tax payments up \$18bn compared with last year. Nomura analysts estimate a Federal budget surplus of \$46,5bn. Friday: The second estimate of UK GDP growth for the first quarter is released, with possible revisions to the first estimate's 0.4 per cent quarterly increase.

,			Statistics	to be re	leasad	this 1	rock			
Dey Released	Country	Economic Statlatic	Median Forecast	Previous Actual	Day	Country	Economic Studiete		Distant Distant	Providen.
Monday	Japan	Apr money supply (M2 +CD)**	4.1%	4.5%		Canada	Mar merchandise expo	1	13%	2.29
May 18.	Japan	Apr broad fiquidity**	A Section	3.0%	Thus	ſK.	Apr rotal sales		0.5%	03%
Tuesday	Germany	Apr Ifo West business climate index	98.7	98.8	May 21	UK	Apx rotal sales	A SUR SECTION	4.5%	414
May 19	Germany	Apr Ito West balance format	T 1/2/2/2	28	1.50	UK	Air MC	A Section	05%	0.8%
	UK	Apr retail price index*	1.0%	0.3%		UK	Apr MC*		W.C.	AND S
* *.	UK	Apr tetail price index**	3.9%	3.5%		UK	For Will landing		ge ster	1200
	UK	Apr retail price lock, ex mortgages	2.8%	28%	4.4.	UK	Apr reticle description	tine . The		NA.
	UK	Apr public sector borrowing reques	nt -50.250	£7.20n		Capada	Mar total sales!		The Park	2013
	US	Apr housing starts	1.58m	1.59m		US	Mary Philestelland Fed	nder.	126	1/84,-
	US	Apr building permits	V 277	1.58m	5.4	US.	Are Researy Chicago	10.74	Several I	THE PARTY OF
2.7.7.37	Carracia	Mar manufacturing shipments*	1.7%	2.9%	14	DK-	Of profigure daper			
<u> </u>	Canada	Mar manufacturing new orders	0.8%	C.395 \	May 22	UK ·	Gri- pro gross daniesti		2848	124
	us	BTM-Schroders May 16		NA		Haly	May 11 cities consum	occa exten	0294	#246V
	us	Redbook May 16		-0.3%		tale :	Many 1/1 Editions Committee			18%
	Japan	Apr trade bat (customs cleared, not	1) Y1,15th	Yeorbo	During 1	he whole.		4.25	2017	4
Weds	Japan	Mar inclusived production:	1. N. W. S.	1.9%	100	Carriery	Are been considered			
May 20	Japan,	Feb shipments:		-1,8%	4.4	Gettpury	And the first Call St.		1000000000000000000000000000000000000	
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	Germany.	Mar current account	Dm3.0bs	Dm02tig	4 4					7
<u> </u>	Paurce	Mer locustrial production:	0.2%	0.7%	100					
	France	Mar ex-energy"	0.4%	1.1%	31.14	Compa			15, 12	
	US	Mar trade: goods/services	-\$12bn	\$13.8tm			a constitution of			
	us	Mar goods/services exp't (bel of par	y) 78bn	\$770n : .		ton)	for 13 hearing	4	第五前 的	學
` <u></u>	us	Mer goods/services imp't (bei of pay)	90bn	\$89.1brî	7 × 10 × 10 × 10 × 10 × 10 × 10 × 10 × 1					
• • • •	Canada	Mar wholesele trade;*	0.8%	0.5%	Jahrage (M.					2

- ready (2,4,4)
 Voyage any skipper would
 try to avoid (4) ney may be called fakes
- (6)
 25 Critic about to join one of the audience (8)
 27 Highest scare? (3-5)
 28 Fearful sort of cavern (6)
 29 The length of time around it varies (8)
 30 A new bride's bits and pieces (6)
- ACROSS

 1 Warning given by a 25 across (6)

 4 Understood to have won popularity (6,2)

 9 Striker appears satisfied about the sum (6)

 10 Best man's bloomer, omitting end of speech (8)

 12 Fastening that becomes undone is a problem on undergarment (4-4)

 13 Keep watch on this chap (6)

 15 For this podding use the back gas-ring (4)

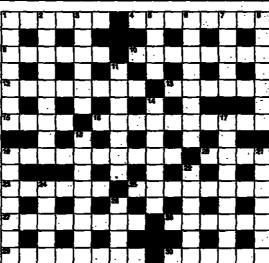
 16 Estimate on rebuilding home (10)

 18 Nose to nose, perhaps, and ready (2,4,4)

 19 Nose to nose, perhaps, and ready (2,4,4)

 10 Promenade provides ocean

 - rid of his love? (5,4) Promenade provides ocean round the
 - world? (7)
 Father splits a coople with children (7)
 In France, Peter accepts date for a nied-a-terre (6)
 Such a cut may be seen in <u> 22</u> a ring (5) She loved Narcissus, it's



Winner of Pozzle No.9,672: W.J. Bailey, Snape, Suffolk

MONDAY PRIZE CROSSWORD No.9,684 Set by DANTE

om of Laurent Ferrier Rosé champagne for the first correct opened. This price is available only to winners living in Scotland and Wales. Winners with overseas addresses will a statuless thed FF deak clock Solutions by Thursday May 28, Monday Crossword 2,684 on the available to the Financial Southwark Bridge, London SE1 SHL Solution on Monday June allow 28 days for delivery of prices.

Solution 9,672



JOTTER PAD

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THE WORLD TRADE SYSTEM AT 50

As ministers gather to celebrate five decades of global co-operation, Guy de Jonquières warns that the forces of liberalisation are increasingly running into local obstacles

Success brings new challenges

When the founding members of the newly-created General Agreement on Tariffs and Trade assembled in Geneva in 1948, they were united by a utopian vision: to restore growth, prosperity and stability to a world economy ravaged by war and ruinous

ROAY 23

Even the most far-sighted could scarcely have guessed bow triumphantly, half a century later, their ambitions would be fulfilled. Nor could they have imagined the array of fresh and testing challenges that achievement would create.

The 50th anniversary of the multilateral trade system - to be marked by a three-day ministerial meeting of the World Trade Organisation which opens in Geneva today - is more than an historic milestone. The celebrations coincide with a Albania and Vietnam. step-change in the liberalisa-

Since the Gatt was formed, eight trade negotiating rounds have cut tariffs in industrialised countries to tion, foreign investment poliless than 4 per cent on average, a tenth of their level at the outset. Many import quotas have been swept away and subsidies more strictly

The result has been a long, sustained upswing in world trade volumes. Since 1948, ... rer merchandise exports have increased 16 times - almost This has equipped it with more demanding, because three times the growth in quasi-judicial authority to world trade policy is no lonworld output. Along with a enforce – as well as negoti- ger focused simply on disware world output. Along with a investment flows, this expansion has tied national economies ever more closely ing frictions which, in the terms on which global com-

into an interdependent past, regularly flared into

Meanwhile, the Gatt, which started life with 50 members, has metamorphosed into the more muscular and broadly-based WTO. Its members today number 132 and more than 30 countries want to join.

The WTO's swelling ranks reflect the ascendancy of market-oriented policies worldwide. As developing countries embrace export-led growth as the engine of economic development, they have become increasingly active participants in the multilateral system.

The collapse of communism has injected added impetus. The queue of WTO applicants is headed by China and includes Russia, the Ukraine, former Soviet republics in central Asia.

The WTO's reach is also extending deeply into areas where the Gatt trod only cautiously. They include intellectual property proteccies and - most importantly services: last year, the WTO reached two landmark deals to liberalise basic telecommunications and finan-

The bedrock of the WTO's enhanced stature, however. is its strengthened system for settling trade disputes.

mutually damaging trade

No club's rules are, of course, stronger than mem-bers' respect for them. Some WTO disputes decisions. such as last year's ruling against the Europe Union's ban on hormone-treated beef, have provoked acute political discomfort and squeals of outrage. Nonetheless, collective self-interest in upholding the rule of law has kept governments from

But the WTO will need all its authority and resilience to cope with the overriding task shaping up for the next century: managing the further advance of global economic integration, which past trade liberalisation has done so much to promote. One of the organisation's

biggest challenges will be to continue moving ahead with a purposeful agenda, while maintaining cohesion among a steadily growing number of members, at widely different stages of economic devel-

Ways need to be found to continue pushing forward the frontiers of liberalisation, without compromising the long-established consensus principle which locks all WTO members into its deci-

That task will be all the system is already proving national markets. Increashighly effective in smooth-ingly, it aims to set the



petition operates. Effective market regulation is more and more becoming a prerequisite of multilateral liberal-

Last year's telecommunications agreement marked an important step in that direction. It contains basic regulatory principles, which require governments to provide foreign carriers, on fair terms, with access to domestic networks. The principles amount, in effect, to a world competition policy for the industry in embryo.

But the forces which are thrusting the WTO's rule-

making role into greater prominence must contend with sizeable practical and political obstacles. Many countries lack proven and effective machinery to implement global rules - or face

strong domestic resistance to complying with them. That is as true of industrialised as of developing economies. Last year's hormones ruling has divided the EU over how to bring its food safety policies into line with WTO rules. Another recent WTO judgment, against US curbs on imports of shrimp

caught with nets which can

trap turtles, has outraged American environmental lobbyists, placing heavy disregard it.

The issues in such cases frequently go beyond a conflict over national laws and regulations. As the forces of liberalisation and global competition drive more deeply into domestic economies, they are increasingly running up against local political systems and strongly-held popular beliefs and

The resulting strains threaten to accentuate the

ill-focused yet emotionally potent malaise known as "globalisation backlash", establish the legitimacy of This counter-trend has been widely blamed for US President Bill Clinton's failure

gress to renew the fast track authority he needs to conclude trade agreements. The debacle was partly due to tactical ineptitude by the White House. But in ret-rospect, Mr Clinton's key failing was his inability to articulate a persuasive case for the benefits of free trade. which appealed to a broad

political constituency.

last year to persuade Con-

Historically US support for free trade has relied crucially on a narrow but influential coalition or political and comemic interests. International trade negotiations, meanwhile, have long been an elitist activity in which progress depended largely on governments ability to cut deals which they could sell to domestic pro-

All that is changing As global trade disciplines extend across an ever broader front they are affecting a steadily more diverse range of interest groups, which span the polit-

ical spectrum. These have acquired vocal and politically influential champions in non-government organisations (NGOs) among them trades unions, environmental groups, development lobbyists and human rights activ-

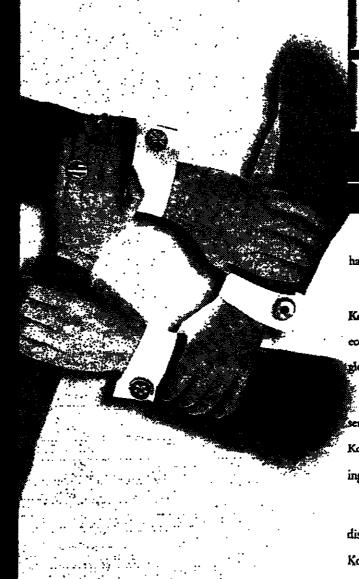
This trend is most advanced in the US but is spreading to other countries. including developing nations such as India. The best-organised NGOs have become adept at lobbying parlinments to demand a bigger say in the formulation of policies, at both the national and international level.

The effects are already being felt at the WTO and at other international institutions. They are under growing pressure to shed their traditional monastic secrecy in favour of a more open style, which involves greater public consultation.

But the most important long-term consequence of this growth in interested parties may be that governments will have to strive to policies among a wider and more disparate range of interest groups. That implies re-thinking their approach to building constituencies and shaping public opinion.

International trade policy has always been determined as much by the realities of domestic politics as by wrangling in the negotiating chamber It is ironic that accelerating globalisation appears to be making that truth more relevant than ever before.





NO SURPRISES

The dassic "big three" of global commerce have admitted a newcomer to their ranks.

Like New York, London and Tokyo, Hong Kong - Asia's new business metropolis - projects economic power far beyond its shores and forges

Having transformed itself into a first-world rvices economy in less than 20 years, Hong Kong offers added value as the unbeatable ingredient in every transaction.

With manufacturing operations now dispersed across an Asian hinterland, Hong Kong has become the financial, trading, transportation, and logistics hub for the Chinese mainland and the wider region.

Metropolitan Hong Kong. It's where the global economy meets Asia.



Hong Kong Trade Development Council





A structure on which to

Renato Ruggiero believes the WTO will develop to manage the global economy

statesmen who created the erendum in favour of liberal-Multilateral Trading System isation inside a rules-based in 1948 were determined not system. to repeat the mistakes that depression and then to the most tragic conflict in and the challenge of manag-

In founding a rules-based trading system, in which of managing a global econnations did not discriminate

dented age of prosperity. Today there are 132 mem-

The visionaries and transition. This is a clear ref-

The divisions which

the Cold War have eroded ing a divided world has system. given way to the challenge omy. The traditional diviagainst their trading part- sions between North and those new technologies interdependent world. in 1948 there were 23 sig- which accelerate the devel- We cannot ignore the

bers of the World Trade duced some extraordinary tribute to efforts aimed at iff treatment.

cessor, and 80 per cent of agreement on the three histhese are developing countries or economies in transition. More than that, all 32
nications, information techtion to the interval accords agreement on the three hisfields, we cannot be asked to have established through the
give all the answers to all achievements of the last fight
years has restfirmed the prition. More than that, all 32
nications, information techtion to the prition of the pricountries awaiting accession, nology products and finanto the WTO are developing cial services - it has countries or economies in achieved the equivalent of a major trade round, the technology and financial round for the 21st century.

launched a process designed marked the bipolar world of to bring the poorest coun-

The challenges we face are related to these achieveeconomic policy makers to ners, they built a framework South are also blurring, address the concerns of civil ing strength of the multilat-that has sparked an unprece-especially in the fields of society in an increasingly eral system.

Organisation, the Gatt's suc- achievements. In reaching resolving problems in these

changing global economy. grate new issues, such as giobal electronic commerce. investment and competition. Last year, the WTO also into the system. But this trade between Europe and must be done in a way. which takes into considertries into the mainstream of ation the difficulties these the international trading issues present for many developing countries.

We must reduce any possible tension between a growments and to the need for ing number of regional agreements and the continu-

Governments must connatories to the General opment process by making it importance of environmen- regionalism, which facilitate ably successful system to the Agreement on Tariffs and easier to access information tal, security and problec trade through harmonisation through the problec trade through the problec trade through the problec trade through the problec trade through tall the problec trade through the problec trade trade through the problec trade trade through the problec trade through the problec trade trade through the problec trade tra years ago, the WTO has pro-system can, and should, con-rather than preferential tar-

remain relevant in a fast tem. But we must not rest Pacific, free trade in the

the Mediterranean. What now divides us from a global trade area inscribed in a rules-based system?

The multilateral trading system will be more impornew century. Our system must keep pace with technological and economic change. By adapting what times to create new kinds of has proven to be a remarkpeoples, the WTO will provide an invaluable contribution to growth, prosperity and stability in the world.

PERSONAL VIEW . The US Trade Representative

Taking the message to Main In economic terms, the income annually. Mean to preserve the Internet as a and provide a meaningful Gait promoted a sixteen-fold while, reducing agricultural "duty free" area of trade, role to include their con-Charlene Barshefsky

says the public must be won over to the WTO's mission

It did not happen overnight but over the past 50 years under the Gatt (General Agreement on Tariffs and Trade) open markets and expanded trade have played an important role in defining international relations in a more peaceful, productive and cooperative framework.

The founders of the Gett believed that open trade. based on the rule of law, could raise living standards in developed and developing countries. They believed it could help prevent repetition of the disasters of the 1930s. when trade wars and nationalist, protectionist forces deepened the Deuression and eased the rise of the dictators and demagogues. And they were right.

output and lift hundreds of growing populations. millions of people from poverty. The Gatt also provided a "political" framework that Second is the end of the Cold War. A quarter of world's population - Russia. helped instill peace and Germany, Japan and the world commerce and international institutions.

challenges.

tional task of reducing its members' trade barriers and ensuring rules-based trade. The WTO "built-in agenda", dards and create prosperity.

increase in trade, helping to trade barriers is important quadruple world economic toward meeting the needs of

the other former Soviet democracy by integrating Republics, China, countries of Indochina - remain outpost-colonial nations into side the WTO. Their admission, on commercially meaningful terms, is a chance to Today, we can both com- commit virtually the entire plete and go beyond their world to the principles of work by meeting four great market economies and the rule of law and, by integrat-First, is the Gatt's tradi- ing Russia and China, to complete the task begun with Japan and Germany after World War II.

including negotiations on revolution. By the year 2002, agriculture and services, electronic commerce will offers great opportunities to grow from about \$8bn to further raise living stan- more than \$300bn in the US alone. And the world of elec-Services comprises the tronic transmissions is, in fastest growing area of trade terms, pristine. The global trade and provides a right trade policy is in place. must be more open to citi- have the chance to make the

speeding creation of telemedicine services, new forms of art and a vast array of new ways to make life safer, healthier and better. Technology, coupled with micro credit enterprises, can unlock substantial economic

countries and provide a foundation for broader, sustainable growth. Fourth - and I believe. most important - is winning the support of "Main Street constituencies" - the workers and families that fear the

opportunities in developing

affects of globalisation. As trade grows, trade policy naturally comes under Third is the information greater scrutiny from citizens. They care not only about tariffs and quotas but transparency and accountability in government regulation, labour practices and environmental protection. The WTO must respond it

cerns as part of its routine practices.

But the WTO cannot do it all alone. Policymakers must work harder to build consensus about the benefits of trade among the public - not just in Washington, Brussels and Geneva but in small towns, schools and city neighbourhoods. If they do not those who make political hay from protectionist arguments will advance and the world's prospects for prosperity in the next century will recede. - -

Our agenda is important and will substantially shape prospects for wider global prosperity in the next millennium. The rewards of success - a more prosperous, secure and peaceful world are worth the work. The past half century has made the world far more prosperous, secure and peaceful and we



More work still to be done

Sir Leon Brittan says Europe is taking the lead in the process of liberalisation

As world leaders gather to mark the 50th anniversary of the General Agreement of Tariffs and Trade, they have much to celebrate. But they also have much to do. For Gatt's golden jubilee comes at an important stage in its

The progress made in global trade liberalisation is astounding. The Urugusy Round, concluded in 1993, established the World Trade Organisation and, with it, the first legally binding dispute settlement mechanism. It also achieved the greatest economic benefits of any of the eight rounds to date.

Since then the progress has unquestionably taken multilateral talks on agricultons growth that will bring. I has continued through a the lead in pushing for tural products and services believe there are two other series of major sectoral greater and faster liberalisation are already scheduled to areas that WTO member agreements, notably in tion of world markets than financial services, information technology and telecoming in the face of such a catal munications. These have logue of achievement, kept up the momentum for Europe's present leaders.

day to celebrate this year the 40th anniversary of the job prospects. decision by EU member states to share responsibility a much more potent agent in trade matters by estab- for growth than domestic lishing the Common Com-mercial Policy.

wide.

Europe was already a force for liberalisation in the Uru- Round provides a wonderful guay Round negotiations, but in the sectoral achieve the timetable laid down ments that followed Europe under the Uruguay Round,

Riberalisation in high-growth need to maintain the areas of the economy. But there is another birth- as a key to sustaining our growth and improving our Since 1945 trade has been

economic expansion. A sub-stantial liberalising agenda Since then, Europe has is also the best way to: provided much of the will counter the protectionist and many of the ideas that temptations besieging Asian have been the engine of leaders in the wake of their trade liberalisation world-region's financial crisis. This region's financial crisis. This is no time for standing still.

The so-called Millennium opportunity, According to

begin on January 1, 2000.

The question is what else should be included in order

to maximise the chances of increased market access. Should we broaden the talks so that they are so comprehensive as to amount to a new round?

Here. Europe is once again taking the lead. Lest month ku foreign ministers gave their formal backing to the commission's call for a comprehensive new round of trade negotiations, covering not only built-in commitments but also industrial tariffs and non-tariff barri-

Since then several important countries have indicated that they too favour a Millennium Round: In addition to more market:

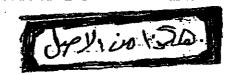
access and the jobs and

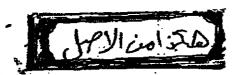
countries should also deal with this ninth round. We need to take decisions

needed to allay the fears of those who think that increased trade would be at the expense of the environment. Second, we need to begin to negotiate some com mon rules on competition policy, for the lack of an effective competition policy can thwart the operation of the most liberal trade policy-

Heads of state and govern ment meeting today in Geneva face important challenges which they must not shy away from if the next. half-century of world trade is to match the progress, sta-blifty and growth of the last, and also meet new challenges thrown by the very







THE WORLD TRADE SYSTEM AT 50 3



to suggest the round pright



10 to 10 to

Director General 1980-93.

build Sticking to the rules

Present at Gatt's birth, Julio Lacarte-Muro has shared its journey to maturity

Julio Lacarte-Muro had not efforts. Between 1948 and long arrived at the newly 1997 world output rose 5.5 created United Nations secretariat in 1946 when his soared 14-fold. boss dropped a paper on his desk and asked him to take butes this to half a century

US draft charter for an luter- "Technological advance national Trade Organisation, leads to globalisation pillar of the postwar economic edifice alongside the International Monetary Fund and the World Bank. When that same year the'

UN set up a preparatory committee to pave the way for an international conference on an ITO, Sir Eric Wyndham White, a Briton who was to be the first head of Gatt, became its executive secretary and Mr Lacarte-Muro his deputy.

Before the conference in Havana, Cuba, the prepara-tory committee decided to put negotiated tariff cuts into effect with some of the ITO's trade rules that would

Julio Lacente Moro took part in Regotiellors which established the General Agreement on Tarills and Trade in 1947, becoming deputy executive secretary at its inception.

During two tours of duty as Diff-

He has taken part in all eight trade-ther allaring Gett names and chaired the Uniquely Record negotiating group that drafted the Sinal agreement of creation of the World Trade Caganization and Its

in 1993 Mr Lacerte-Muro stood Peter Suthetland of begand for Sett (\$190) turned 80, he is a " aber of the W70's

protect the tariff conces-

The agreement was signed in October 1947 by 23 "contracting parties", and Gatt came into existence in January 1948 as a modest first step towards an ITO.

The Havana charter establishing the ITO was signed by 53 nations, virtually the whole of the postwar international community with the exception of the wartime losers - Germany, Italy and Japan – and the Soviet Union which was invited to and win"

participate but declined.
But the US, which then accounted for about half world trade, failed to ratify the treaty: the ITO was still-

Gatt was left as the sole standard-bearer for multilateral trade, but it was not even a properly constituted

Mr Lacarte-Muro laments the failure to set up the ITO. which he says would have been more inclusive of the world trading community and could have spoken with a stronger voice, for instance in dealings with the IMF.

With the same economic developments and pressures, he believes the ITO would have become something very like the WTO today. What the founders of Gatt did not envisage, he says, was the phenomenal success of their times but trade in goods

Mr Lacarte-Muro attriof world peace and the pace The paper contained the of technological change. · But underpinning the

system laid out in Gatt and now the WTO. The WTO, of course, is not an exact replica of what the ITO might have been. For

instance, unlike the WTO. the original ITO charter included chapters on employment, restrictive business practices, economic development and commodi-

Economic development

and commodities are now under the wing of the WTO's Geneva neighbour, the UN Conference on Trade and Development (Unctad), set up in 1964. However, the US is once again pressing for the WTO to concern itself with labour standards while other WTO members, notably the European Union, are keen for it to negotiate. global competition rules.

Mr Lacarte-Muro identifies three other big differences between the WTO and the ITO and Gatt:

· Whereas the ITO charter, and that of Gatt, were rela-tively short, "the WTO has 500 pages of commitments and thousands of pages of tariff bindings. The rules of the game have been set out now and they keep on being set out in a way that never occurred in the history of

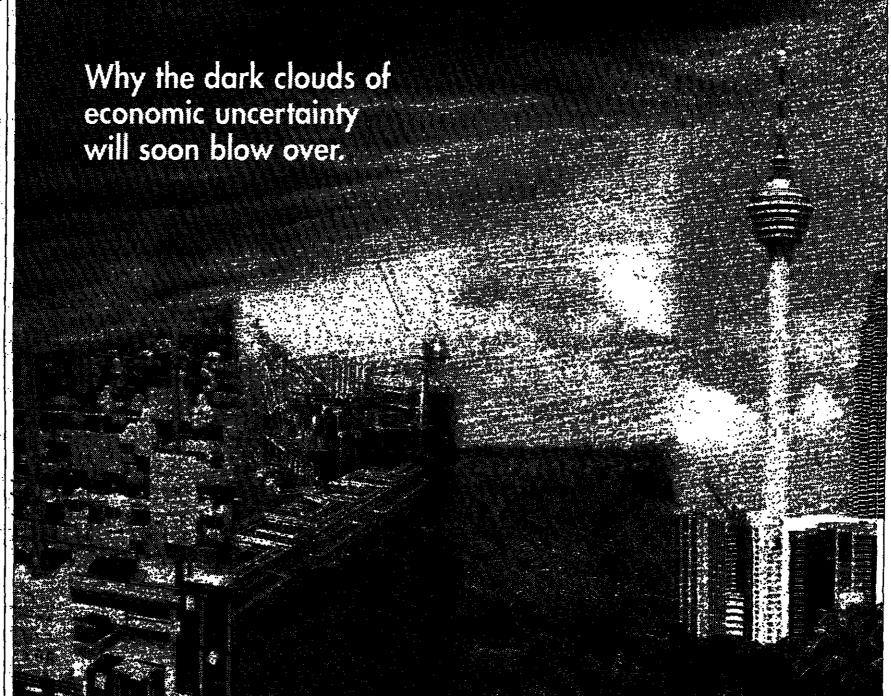
 Developing countries, which account for the bulk of the WTO's 132-strong membership, have a far bigger role in the world trading system and in formulating international trade policy.

• The dispute settlement mechanism of the WTO has "transformed the picture for smaller and medium-sized countries". In Gatt there were relatively few disputes, some cases ended inconclusively and only a limited number of important countries made use of it. Now "countries big and small have recourse to it, and countries big and small lose

Nevertheless Mr Lacarte-Muro points out that Gatt was right about the basic principles such as most-favoured-nation treatment. non-discrimination and a continuing trade liberalisa-

"Everything that was contamed in Gatt came under enormous scrutiny in the Uruguay Round," he says.

"The fact that some of. these basic provisions have not been touched is an indication that they have survived the test-of time. We have buttressed them but we



There have been dark clouds of economic uncertainty hovering over Malaysia. We Malaysians expect the picture to clear. In due time. With an optimism that is borne out of four decades of incredible economic growth the world has been witness to.

With the perseverance to make changes and sacrifices. With the wisdom of solid economic fundamentals to see us through. With the determination to do everything for the economy to bounce back.

And bounce back we will. How can we be so bullish about it? Because we've overcome other adversities before. And we'll do it again.

MALAYSIA Bullish on Bouncing Back













THE INTELLECTUAL ARGUMENT • by Martin Wolf

liberalisation won

Europe.

Open markets have shown convincingly their ability to create wealth

Between 1950 and 1996, the volume of world merchandise trade grew by 1,500 per cent. This is the happy bequest of a small Anglo-American band of idealists. The liberalisation of trade and payments they initiated in the darkest days of the second world war has ishing reality.

fathers was a mixture of the and Trade, to oversee trade; old and the new. The theo-

World output and exports of ma Per chit is year - filted log-linear trend

retical case for liberal trade had been advanced by Adam Smith and elaborated by his sors, foremost among them David Ricardo, inventor of the theory of comparative advantage.

If the case for liberalism was old, its institutional underpinnings were new. the interwar years, the makers of the postwar world nomic order on a sounder ated institutions: the Inter-The vision of the founding eral Agreement on Tariffs

Mindful of the catastrophe of wished to put the liberal ecofooting than ever before. With this in mind, they creturned from hope into flour- national Monetary Fund, to oversee payments; the Gen-

What changed minds was experience. Over the 1950-96 period, the volume of world output rose 6-fold, while merchandise trade expanded 16-fold: world output of manufactures grew 9-fold, while world trade in manufactures rose 31-fold. Trade has consistently led outout. The integration of the

European Economic Cooper-

authority last year. In the 1940s, it refused to ratify the

International Trade Organi-

sation altogether, leaving a

supposedly temporary Gatt

to fill the gap, until the

World Trade Organisation

was established at the end of

the Uruguay Round.

ese men were vision-

world economy over the past 50 years started by reversing the disintegration in the interwar years. But this had been achieved by 1970. It then went further than ever before: according to the economic historian, Angus Maddison, the ratio of world merchandise exports to gross domestic product in the early 1990s was 60 per cent higher than in 1913. The average effective tariff rate in high-income countries, at 2% per cent, was lower than ever before. Last year, world exports of merchandise and commercial services reached

Trade liberalisation was not the only cause of this integration. Also important were changes in technology and economic organisation: the real price of air travel

\$6.500bn - a fifth of global

ation, to oversee both, in and 1990; and that of a telephone call between New York and London declined by almost 95 per cent. Multiaries. Half a century ago, the case for liberal trade was far national companies revoluless widely accepted than it tionised both the transmisis today. Congress refused to sion of knowledge and the grant president Clinton organisation of global pro-"fast-track" negotiating duction: by 1992, intra-com-

> Yet it was impossible for a country to take advantage of these new opportunities without first opening itself to trade. Countries that excluded themselves were left in a stagnant hackwater.

Initially, the much for lib-

cent of US trade.

eral trade was confined largely to North America and Europe. Even there, doubts were expressed, not least concerning the impact of liberalisation on a country's ability to secure full employment. In the event, the feared conflict failed to emerge. The 1950s and 1960s were glorious years of fast growth and low unemploy-

Unfortunately, this success was thought to be of no relevance to developing countries. Europe liberalised under the aegis of the Gatt, the OREC and the European Community. Virtually all other countries pursued import substitution, infantindustry protection and self-sufficiency.

Happily, there were a few exceptions, virtually all in east Asia. Japan - followed by South Korea and Taiwan pursued a mercantilist route to export expansion: Hong Kong and Singapore were liberal. But all these economies were more outward-looking than other developing countries, not to mention those under com-

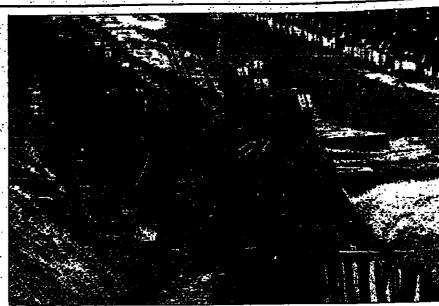
trialised economies raised their average real incomes per head from 20 per cent of . those of the high-income countries in 1965, to 70 per cent, by 1995.

Subsequently, their path was followed by other comtries: Chile, Indonesia, Malaysia and Thailand from the pany trade was some 40 per late-1960s or early 1970s, and then China from the early 1980s. When the Gatt was founded, India was the developing world's leading exporter of manufactures By the 1980s, it exported far less than Malaysia or Thailand, let alone South Korea

> While the almost universal developing-country infatuation with protection was rumous, it was also as close as it is possible to come to a controlled experiment. Closest of all, however, were the divided countries: West and East Germany; South and North Korea; Taiwan and mainland China. In each case, economies that started with much the same human resources and incomes per head diverged dramatically. By the 1990s, the ratio of real income per head had moved to more than 10 to one in South Korea's favour. The rapid trade-led growth

of successful east Asian economies did more than raise average incomes. According to the World Bank, the number of people living on the equivalent of \$1. a day, in common international prices, fell from more than 700m to 350m between 1975 and 1995 in that region. comparable decline occurred in any other part of the world.

By the 1980s, it was evident to anyone with eyes



that all the world's success ful economies, except those sitting on oil or diamonds. were busily exploiting the growing opportunities to trade. What the eye could see, cross-country empirical analyses also confirmed

Integration into world trade offers a host of advantages: ability to exploit abundant factors of production: the opportunity to take advantage of economies of scale: lower prices for consumers; exposure to competitive presume access to information about markets and new technology; and integration into international systems of production. Deprived of these benefits and starved of foreign exchange, the most protectionist economies suffered slow growth, economic instability, or both.

The intellectual arguments for liberalism have always encountered arguments against it. In the 1980s, straegic trade theory was added to the protectionist armoury. This explores industri characterised by oligopely

AGENDA • by Guy de Jonquières

here again, as with infant industry protection, political reality and the unavoidable ignorance of officials make stently successful selective intervention almost

The growing realisation of the benefits of openness to trade stimulated a worldwide move towards liberalisation, which was crowned by the collapse of communist regimes in Europe and the former Soviet Union. In the developing world and the countries in transition, the liberalisation was largely unilateral, though it was also pushed along by programmes agreed with international financial institutions. But in high-income countries, international negotiations continued to

play a decisive role. The worldwide shift towards liberalism culminated in the Uruguay Round - the most comprehensive of the eight postwar multilat-

and increasing returns. Yet, omy and area of world trade The result was a programme of liberalisation that covered services, as well as the whole of merchandise trade.

for the first time. Intellectual victories are never final. While countries that chose protection have mostly recognised their folly, high-income countries the fear of globalisation -"globaphobia", as it is sometimes now called. People worry about the impact of trade on wages, environmental regulation or food safety. Some object to alleged infringement of national sovereignty by the WTO. Yet these new objections to today's liberal trading order gerated or easily dealt with within a rules-based liberal trading system.

The case for liberal trade is now grounded in economic theory and, some experience. Only extreme etal trade negotiations. For stupidity would allow the the first time, a negotiation world to forget what it has involved almost every econso painfully learned.

POLICY • by Guy de Jonquières

World merchandise output and except

Per cent a year - fitted loc-linear trend

Uncharted, and troubled, waters

The WTO faces pressures to tackle a long list of new issues

For most of the world trade system's 50-year-life, policymakers and negotiators have been preoccupied with dismantling border barriers. such as tariffs and quotas. But today a lengthening queue of far more slippery challenges is jostling for a

place on the agenda. As global integration accelerates, the line between of economic and social policy - some long regarded as national governments - is becoming increasingly

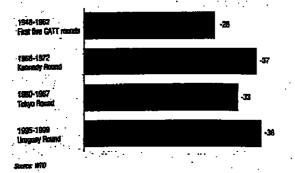
This messy convergence is placing pressure on the WTO to extend its rule-making to often poorly charted new areas with demands focused on four main ones, known among trade policymakers are environment, competition policy, investment and workers' rights

In some of these, calls for WTO action are based on the argument that common rules and disciplines are needed to keep markets open and prevent international trade conflicts developing. In other cases the aim is more to promote social and politirather than economic, obiectives.

However, WTO members are far from reaching a consensus on the merits of tackling these issues. Indeed. efforts to get some of them on its agenda have provoked bitter disagreements which have exposed divisions within governments as well as between them.

Nonetheless, the pressures on the organisation to grapple with the new issues seem they may strengthen in the future. These are the main elements in the debate over

Reductions in trade protection % average beriti reductions



 Environment: Tensions domestic competition rules. between world trade rules and environmental regulations first hit the headlines in 1991, when a Gatt disputes panel ruled against a US ban on imports of Mexican tuna fished with nets which also authorities are unable to caught dolphins. Although control effectively. the ruling never took effect.

Similar issues were raised by a WTO disputes panel decision last month against a US law which restricts imports of shrimp caught with nets which can also catch turtles.

The US is appealing against the decision, insisting it has the right to maintain high environmental the sovereign preserve of standards. The developing countries challenging the law say it amounts to dis-

guised trade protection. Prompted partly by the so-called tuna-dolphin case. Gatt established, in 1995, a committee to examine the links between trade and

One of its key tasks is to seek ways to avert conflict between world trade rules and multilateral environmental agreements which provide for trade sanctions as a means of enforcement

However, the committee has so far been unable to agree any recommendations son is resistance among developing countries, which fear any changes in WTO tal grounds could give industrialised economies a pretext to erect new barriers to their

● Competition policy: Largely at the urging of the European Union, WTO ministers agreed at their December, 1996, meeting in Singapore to set up a working group to study trade and competition policy and report later this year.

Proponents say WTO action is needed for three main reasons. These are to prevent access to members' markets being frustrated by inadequate enforcement of

to avoid jurisdictional conflict between national antitrust authorities and to competition on global markets which individual Two recent developments

it caused a furore among US are said to underline the for a bigger WTO role. One was last year's threat by EU competition authorities to impose trade sanctions on Boeing, if the US space manufacturer did not satisfy Brussels' objections that its merger with McDonnell Douglas threatmanufacturer Airbus' com-

petitive position. The other was the Frii-Kodak case brought by the US plained that Japan had tolerated restrictive practices in its photo-film market, which discriminated against Kodak and other foreign competi-

But a WTO disputes panel rejected the complaint, finding that Japan's alleged malpractices did not violate world trade rules.

Karel Van Miert KII competition commissioner, has sted that the WTO seek to instil observance of basic anti-trust principles amons its members. He has also called for a form of disputes procedure to settle jurisdic tional conflicts between competition authorities.

However, the US is unenthusiastic about involving the WTO in competition policy, largely because its govent is split on the issue. Trade policymakers, disappointed by the outcome of the Fuji-Kodak case, would like stronger rules to force countries, such as Japan, to open their markets.

But the US justice department strongly opposes giving the WTO powers in this area, fearing a more powerful WTO could weaken its own authority. Some in Washington also warn that any move to enable the WTO to override US trust-busters would cause an outcry in

Congress Meanwhile. developing countries, most of which lack effective anti-trust regimes, insist that any WTO debate on competition policy also cover industrialised countries' use of antidumping policy to restrict imports.

• investment: The 29-member Organisation for Economic Co-operation and Development provoked a bitter north-south split in the WTO when it set out in 1995 to negotiate an agreement to liberalise and formulate



tougher rules for the protec- • Workers' tion of foreign direct invest-

Developing countries attacked the plan as a conspiracy by rich economies to impose disciplines on them without consultation. The OECD pooh-poohed these could agree effective investment rules quickly.

However, the OECD talks have become bogged down in disagreements and its members recently agreed to support WTO efforts to tackle the issue. But prospects for rapid

decisions in the WTO, which has set up a working party to study trade and investment, do not look good. The task of achieving consensus. which has so far eluded the OECD, is likely to be even tougher in an organisation with 132 members at widely varying stages of economic

development. Furthermore, any debate in the WTO is likely to provoke strong lobbying by environmentalists and trades unions, which organised a highly effective resistance campaign against the OECD project.

rights:

Although a large majority of WTO ministers, at their Singapore meeting, rebuffed a US-led campaign to get this issue on the organisation's agenda, Washington continues to demand that trade agreements should procriticisms, saying only it mote respect for core labour standards.

Washington, with some support from France and Str Leon Brittan, EU trade commissioner, says that unless trade policy responds to widespread concern about upholding workers' rights the risk of a protectionist hacklash in the industrialised world will grow.

But developing countries strongly contest such arenments, claiming they are a back door attempt to legitimise protection. The US is also vulnerable

to accusations that its position is dictated more by partisan politics than by moral principle. The Clinton administration's efforts to link trade and workers' rights appeal to its trades union supporters but are vigorously opposed by Republicans, who control both houses of Congress.

Squaring the circle

The WTO's goals in the next twoyears may evolve in to a new trade

For more than two years Sir Leon Brittan, Europe's apparently indefatigable trade commissioner, bas circled the globe calling for a new round of world trade lib eralisation talks.

He wants a decision to launch a "millennium" round taken by the end of next year, which also hap pens to mark the end of his

There are signs that his campaign is starting to gain ground. His proposal was within world trade rules. recently endorsed by European Union foreign ministers. It has also attracted some support from Japan and Singapore as well as from Australia and other members of the Cairns Group of agricultural exporting countries.

However, the US remains decidedly unenthusiastic, partly because President Bill Clinton has failed so far to win the fast track authority needed to negotiate new trade agreements. There is also antipathy in developing countries, many of which appear to be suffering from liberalisation fatigue".

Yet the argument over the merits of a new round may, in the end, boll down to little more than semantics. The WTO is already committed to start tackling a meaty agenda next year, headed by planned negotiations on agricultural trade and further liberalisation of ser-

vices. In practice, this "built-in" agenda may evolve naturally into a full-scale round. That is because countries which face pressure to open politically sensitive markets, such as agriculture, will be likely to insist on reciprocal concessions in other sectors of interest to their exporters. It is too early to say what

other items countries will put on the table once the bargaining begins although support appears to staunchest defender, now be growing for further accepts that its reform is efforts to cut industrial tariffs - or how trade-offs between them will develop. But many observers

believe the main issues on Which talks are scheduled are so complex and politically intractable that it will be difficult to make progress if they are confined to separate negotiations, The built-in agenda is an

In sericulture, the Urnguay Round's main achievent was to bring the sector for the first time firmly Countries agreed to convert their non-tariff import barriers into tariff equivalents to be reduced in stages and to impose some disciplines on domestic and export subsi-

In reality, however, the exercise did little more than lay the foundations for future liberalisation. It has done little to dismantle trade

Indeed, the World Bank has calculated that, because countries set tariff equivalents so high, levels of protection in the year 2000 will in many cases be higher than in the mid-1990s.

The Cairns Group, whose 15 members account for a fifth of all farm exports, is already sharpening its swords for battle. Its main targets are the European Union and Japan, where it wants to see hig reductions in subsidies which discriminate against imports and dis-

tort world markets. Hopes of progress hinge largely on the massive systemic pressures building up on Europe's much-criticised Common Agricultural Pol-

Brussels recognises that enlargement of the EU to include countries from eastern Europe may cause these pressures to explode and the CAP to collapse unless it is drastically reformed.

France, long the CAP's inevitable and could even benefit French exporters. Its main aim in the WTO appears to be in extracting the maximum trade concessions from other countries in return for changes in the CAP which it knows will have to happen anyway.

However, Germany, once a emerged as the most intraninnovation in world trade sigent opponent of reform. the Uruguay Round, partly ical forces shapes up within to keep up the momentum of the EU, and how it interacts liberalisation and partly with enlargement, are likely because much important to have an important influbusiness remained unfin- ence on farm trade negotiaished at the end of the talks. tions in the WTO.

In services, on which a new round is scheduled to start in 2000, the US and the EU are expected to seek further advances on the liberalisation secured in last year's WTO agreements to open up giobal competition in basic

telecommunications and

financial services. Both agreements were achieved through self-contained "single sector" negotiations. Although the effectiveness of this approach surprised some observers, it is not clear how much further it can be taken.

Many developing countries, which were the main targets of the two successful liberalisation drives, may be reluctant to open their markets further unless industrialised economies are ready to lower barriers to their principal exports.

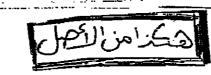
Another issue likely to play a prominent role in the forthcoming services talks is how-to address the impact on trade of the internet and electronic commerce.

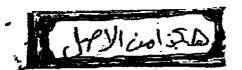
Until now the WTO's efforts to liberalise services have focused mainly on those supplied from a commercial base within a foreign country. But the emergence of the internet as a potentially revolutionary means of delivering services between points anywhere in the world is expected to turn the spotlight squarely onto cross-border services compe-

tition. Discussions in the WTO are still at an early stage. There is no consensus yet on whether existing multilateral rules adequately cover trading on the internet or whether special additional disciplines are needed to keep markets open and ensure fair competition.

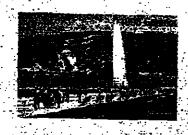
It is as hard to say where the discussions will end up as it is to predict the outcome of the wider international debate on the complex fierce critic of the CAP, has issue of internet governance. It will be interesting to see how far the internet's growpolicy. It was decided during The way the balance of politing role spurs changes in other areas of trade policy and how far the WTO's approach to electronic commerce is shaped by political pressures to link it to tradeoffs on other issues

5:4





THE WORLD TRADE SYSTEM AT 50 3



overseen important WTO accements on financial

with an eye for big initiatives, including the expansion of the

stoustrial tariffs, trade and to spacest the round might



· W' PER

EYEWITNESS • by Frances Williams

build Sticking to the rules

Present at Gatt's birth, Julio Lacarte-Muro has shared its journey to maturity

long arrived at the newly 1997 world output rose 5.5 created United Nations sectimes but trade in goods retariat in 1946 when his soared 14-fold. boss dropped a paper on his desk and asked him to take butes this to half a century care of it.

US draft charter for an Inter- "Technological advance national Trade Organisation, leads to globalisation s to be the third piliar of the postwar economic edifice alongside the International Monetary Fund and the World Bank.

When that same year the now the WTO. UN set up a preparatory committee to pave the way for an international conference on an ITO, Sir Eric Wyndham White, a Briton who was to be the first head of Gatt, became its executive secretary and Mr Lacarte-

Muro his deputy.

Before the conference in Havana, Cuba, the preparatory committee decided to put negotiated tariff cuts into effect with some of the ITO's trade rules that would

hiside view John Lacaria-Muro took part is nego-Harions which established the General Agraement on Tariffs and Trade in 1947, becoming deputy execusive secretary at its inception.

During two tours of duty as throimportant elective Best offices. He has taken part in all eight trade Unuguery Round negotiating group that drafted the finel agreement on crasilion of the World Trade Organisation and its

dispute settlement mechanism. In 1993 Mr Lacerte Murp stope turned 80, he is a

protect the tariff conces-

The agreement was signed in October 1947 by 23 "con-tracting parties", and Gatt came into existence in Janu-ary 1948 as a modest first step towards an ITO.

The Havana charter establishing the ITO was signed by 53 nations, virtually the whole of the postwar international community with the exception of the wartime losers - Germany, Italy and Japan - and the Soviet Union which was invited to participate but declined.

But the US, which then accounted for about half world trade, failed to ratify the treaty: the ITO was still-

Gatt was left as the sole standard-bearer for multilateral trade, but it was not even a properly constituted organisation.

Mr Lacarte-Muro laments the failure to set up the ITO, which he says would have been more inclusive of the world trading community and could have spoken with a stronger voice, for instance in dealings with the IMF.

gastus- accusações con exerciz

With the same economic developments and pressures, he believes the ITO would have become something very like the WTO today. What the founders of Gatt did not envisage, he says, was the phenomenal success of their Julio Lacarte-Muro had not efforts. Between 1948 and

Mr Lacarte-Muro attriof world peace and the pace The paper contained the of technological change. But underpinning the growth of world trade has

system laid out in Gatt and The WTO, of course, is not

an exact replica of what the ITO might have been. For instance, unlike the WTO, the original ITO charter included chapters on employment, restrictive business practices, economic development and commodi-

Economic development

and commodities are now under the wing of the WTO's Geneva neighbour, the UN Conference on Trade and Development (Unctad), set up in 1964. However, the US is once again pressing for the WTO to concern itself with labour standards while other WTO members, notably the European Union, are keen for it to negotiate global competition rules.

Mr Lacarte-Muro identifies three other big differences between the WTO and the PTO and Gatt:

· Whereas the ITO charter, and that of Gatt, were relatively short, "the WTO has 500 pages of commitments and thousands of pages of tariff bindings. The rules of the game have been set out now and they keep on being set out in a way that never occurred in the history of world economic relations."

 Developing countries, which account for the bulk of the WTO's 132-strong membership, have a far big-ger role in the world trading system and in formulating international trade policy.

• The dispute settlement mechanism of the WTO has "transformed the picture for smaller and medium-sized countries". In Gatt there were relatively few disputes, some cases ended inconclusively and only a limited number of important countries made use of it. Now "countries big and small have recourse to it, and countries big and small lose and win".

Nevertheless Mr Lacarte-Muro points out that Gatt was right about the basic principles such as most-favoured-nation treatment, non-discrimination and a continuing trade liberalisa-

"Everything that was contained in Gatt came under enormous scrutiny in the

Uruguay Round," he says. "The fact that some of these basic provisions have not been touched is an indication that they have survived the test of time. We have buttressed them but we



There have been dark clouds of economic uncertainty hovering over Malaysia. We Malaysians expect the picture to clear. In due time. With an optimism that is borne out of four decades of incredible economic growth the world has been witness to.

With the perseverance to make changes and sacrifices. With the wisdom of solid economic fundamentals to see us through. With the determination to do everything for the economy to bounce back.

> And bounce back we will. How can we be so bullish about it? Because we've overcome other adversities before. And we'll do it again.

MALAYSIA Bullish on Bouncing Back













Pact in: southern Africa boasts one of many regional trade agr

It is also considering repla-

with a network of such

Caribbean and Pacific coun-

alism seems to have lost

some of its allure. Grand

plans for a Free Trade Area

of the Americas have stalled.

while Apec's plans to free all

trade between members by

2010 have ground almost to a

Meanwhile a proposal by

Sir Leon Brittan, Europe's

trade commissioner, to nego-

tiate a "transatlantic

marketplace" agreement

with the US was shot down

by EU ministers last month.

ing momentum is Asia's eco-

nomic crisis, which has

blunted the appetite of many

countries in the region for

further liberalisation, More

important still has been a

sea change in US attitudes.

embracing regionalism in

the 1980s. Washington has

been thrust on to the defen-

sive by a political backlash

against Nafta. Indeed,

Nafta's unpopularity in Con-

gress contributed heavily to

President Bill Clinton's fail-

ure to win renewed "fast

Nanetheless many policy

makers think the lull may be

only temporary. Some

plines to stop regionalism

proliferating endlessly into

the future and threatening

the cohesion of the multilat-

The EU, with cautious

backing from Japan, Hong

Kong, Korea and a few

larger developing countries,

is seeking to have the WTO

rules beefed up as part of the

round. But it is still not clear

whether their efforts will

The fact that almost all

the WTO's members are par-

ticipating in the regionalism

collective interest in subject-

ing themselves to tougher

But, without more conclu-

stve evidence that the costs

perceived benefits, they may

sist for a while longer in

their old ways.

track" trade negotiating

authority last year.

eral system.

After enthusiastically

One reason for the faiter-

REGIONALISM • by Guy de Jonquières

The proliferation of regional trade agreements leaves economists

deeply divided Here is a paradox. The faster the pace of globalisation becomes, the stronger the urge among nations all over the world to club together in regional economic and trade

The World Trade Organisation says it has been notified of almost 180 regional trade arrangements. All its 132 members except Japan, Hong Kong and Korea

belong to at least one. And their numbers keep growing. A third of the total has been registered since 1990, six so far this year

Few issues divide trade economists as deeply as the rise of regionalism. Some say the phenomenon is benign and view regional

regional groupings can dismantle trade barriers between one another faster than is possible in the WTO. laying the foundations for eventual multilateral liberalisation. All that is then needed is to "join up the

blocks. They say such agreements are discriminatory to exporters in third coun-

Such groupings, it is alleged, are often unbalanced because their most powerful member can impose on smaller ones con- Union. ditions which benefit it

Renato Ruggiero, WTO director-general, has warned that the agreements may also impede global integration by distracting governments' attention from multilateral liberalisation.

Which of these opposing arguments is right is hard to tion. establish with certainty. One reason is that no effective mechanisms exist for assessing the agreements' impact. Although the WTO is supposed to vet them for confor-

mity with multilateral rules,

Number of acreements .

Number of acreements

The growth in regional trade agreements

latra-regional trade agreements entering into fer

its members have long considered it in their interest to keep its criteria vague and

its procedures weak. Definitive judgments are also difficult because the characteristics, their scope and motivations vary widely and have changed over time.

The first burst of regionalism began in the 1950s and 1960s, triggered by formation of the European Community. It remains unique, both in the extent of the internal trade liberalisation achieved and in the fact that this was accompanied by deep institutional integration and pooled sovereignty.

However, the EC's formation had one feature in common with many subsequent agreements. Its primary inspiration was as much political as economic. In many cases, governments view promotion of trade as a means to underpin closer overall relations rather than

as an end in itself. The second wave of region groups as important building alism emerged in the late blocks for global economic 1980s, driven by two developments. One was the crumb-They claim countries in ling of communism, which prompted many east European countries to seek market-based alternatives to the Soviet-dominated Comecon

The other spur was fears that the Uruguay Round world trade talks would collapse, taking the multilateral But others think regional- system with them. The quest gave impetus to groupings draft tougher WTO disciincluding the North Ameribecause members enjoy pref- can Free Trade Agreement erential access to each oth- and the Asia Pacific Ecoers' markets which is denied nomic Co-operation Forum.

In the 1990s developing countries have taken up the running, banding together into groupings such as Latin America's Mercosur and the Southern Africa Customs

For many the appeal of next multilateral trade regionalism is as a safety net against globalisation. By offering their producers an gain wider support. expanded - and partly protected - domestic market, regional trade agreements are thought to provide a race may lead them to find a platform from which to confront international competi-

The EU, meanwhile, has recently given a higher priority to negotiating free of regionalism outweigh the trade agreements with developing economies, notably in decide they can afford to perthe Mediterranean region, as well as with Mexico and

DEVELOPING NATIONS • by Frances Williams

Sceptisism has given way to a belief that co-operation benefits all

Though for many years the Catt was billed as a "rich man's club, developing countries made up half its original membership. More-over, a "one-country one-vote" system gave small, poor nations the same voting weight as the US, which then dominated world trade, in sharp contrast to practic at the IMF and World Bank.

Of course, in reality, the powerful trading clout of the US and other industrialised ing force behind the Gatt and the rule of consensus which the WTO has inherited - meant no decision could be taken without the consent of the main traders.

Poorer nations neverthecing the Lomé Convention less increasingly came to recognise that a predictable agreements with African, rules-based trading system that outlawed trade discrimination worked to their Recently, however, region-

The WTO currently has 132 members, three-quarters of them developing countries, and their voices backed by increased trading muscle - are being raised ever more strongly in the WTO's decision-making bod-

Julio Lacarte-Muro, a veteran Uruguayan trade diplomat now on the WTO's appellate body, says the 1986-93 Uruguay Round of Developing countries, many global trade talks marked a of which were introducing watershed. "There was a economic and trade liberalischange of mentality on both ation programmes unilater-

ally, saw the opportunity to less than the 40 per cent idea is daunting, prompting sides - developed and develthe Gatt/WTO and receive Developed countries realised that emerging econotrade benefits in return.

Fostering interdependence

nations have sometimes been given longer transition times to comply with WTO rules, they will eventually be bound by the same trade rules as richer ones. The notion of "special and preferexclusion of developing the goods sector. countries from trade specision-making, now plays a diminished role

Systemic benefits to poorer nations from the Uruguay Round included strengthened fair trade roles and a semi-judicial dispute settlement system that has been used extensively by poorer nations against the big traders, for instance, by Costa Rica and India against the US on textiles. HOS

Developing countries as a group will also benefit from help richer nations undercut A Many of the more choice but to make a strate eralisation is being left to

WTO assessments, carried on industrial products of merce, to the list of upcom-interest to developing couning trade negotiations. tries by 37 per cent, slightly

cement that liberalisation in average. This reflects the the Gatt/WTO and receive continued existence of tariff "peaks" on goods such as Though developing textiles, clothing and fish modest practical help. The and fish products but it does not include the gains from a

phase-out of textile quotas. countries were obliged to accept new rules on intellectual property, services and ential treatment", which investment as well as a vast critics argued fostered the array of extra disciplines in Though ideological opposi-

tion to compliance in theseareas is waning, it has resulted in an onerous burden of obligations in terms of new legislation trade policy notifications and presence at WTO meetings, which many developing countries are struggling to cope with

The burden of compliance has become one of the biggest issues for the WTO's poorer nations and is fuelling strong opposition from Uruguay Round decisions to some countries to the inclurestrain farm subsidies and sion of any new subjects on horder protection, which the WTO's future agenda.

poor ones on world food advanced developing coun- gic commitment to devote markets, and to phase out tries signed up to wide rangquota restrictions on textiles ing accords in the past two power to trade policy. though the bulk of the lib- years on financial services, telecommunications and the end of the 10-year transi- information technology poorer nations cannot simproducts. But even they are beulking at the thought of out after the Uruguay Round adding competition and was completed, estimated investment policy, not to globalisation will proceed that rich countries cut tariffs mention electronic com-

For the very poorest, the

the WTO and the Swiss government, which hosts the WTO, to try to give some cash-strapped WTO-runs a variety of technical assistance programmes, mostly in return, developing by way of training and the provision of information technology, though it is also taking part in formulating trade action plans in cooper-

ation with the UN system and the World Bank. The Swiss are funding office accommodation for the least developed countries (as classified by the UN) and have just set up an office dedicated to helping them with their WTO information needs. Only about a third of the 30-odd LDCs which are WTO members even have offices in Geneva and those that do have to cover UN

activities as well. John Weekes, Canada's WTO ambassador, says if developing countries do not want to be marginalised in the globalising international economy they have no more resources and man-

Renato Ruggiero, WTO director-general, agrees that ply say they want to get off the trade liberalisation bus. "Technological advance and anyway", he says, "The process can't be stopped but we need to pay more attention



in per cent of current industrial country per capita GDP, perchasing p

ing countries and Asian newly industrialised econom

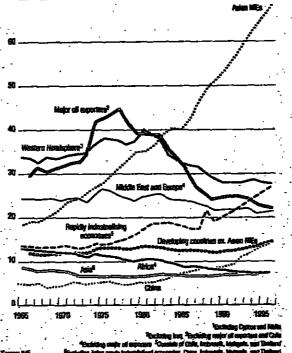
oping countries," he says.

mies were becoming impor-

tant markets for their

exports and wanted to

secure predictable access.



DISPUTES • by Frances Williams

brooks no argument

The WTO's settlement

process has won the support of all its members

Well-publicised arguments over recent dispute rulings by the World Trade Organisation – for instance, against the European Union's ban on beef hormones or the US ways that kill turtles - have tended to overshadow the undoubted success of its dispute settlement machinery in resolving trade spats between members.

More than 120 cases have been brought to the WTO since its creation in January 1995, three times as many as were brought to the General Agreement on Tariffs and Trade in its 47 years of exis-

And while the major traders remain the biggest users of the system - the US alone has brought more than 40 complaints - developing countries, too, have brought and won cases, against each other and against the trade

This vote of confidence reflects very significant differences between the WTO's disputes mechanism and that evolved under the Gatt. ates to a fixed timetable with no more than 15 months supposed to elapse between filing a dispute and adoption of an appeals body

unlike in Gatt, countries delays in adopting reports cannot block more than once decisions to send disputes to panels and cannot veto adoption of the findings. They bated another problem - the ings but the judgment of the dispute settlement process.

appeals body - another WTO Under WTO procedures, imposation - is binding panel reports remain confi-Moreover, the WTO panels and appeals body have ruled on disputes by reference to WTO rules and general international law, rather than trying to broker a mutually satisfactory solution.

Though this judicial approach has not pleased all WTO members, it is beginning to establish a body of trade jurisprudence to interpret and guide international trade rules. tries have strong incentives to settle bilaterally, in advance of formal rulings. Most cases are, in fact,

resolved during the statu-

tory lengthy consultation period before a panel investi-gation can be demanded. Moreover, where disputes have gone all the way through the system to adoption of panel and appellate body reports, countries have, without exception, pledged to comply with the rulings -even though in some instances (such as the Euro-

treated beef) there are arguments as to what compliance means in practice. Failure to comply obliges the offending nation to pay compensation and, eventu-ally, face trade penalties though, to date, this proce-

pean Union ban on hormone-

dure has not been invoked. Success invariably brings problems of its own. The avalanche of cases has put the slim WTO secretariat under considerable strain. Delays in translation, for It is also semi-automatic: instance, have led to lengthy and so in implementing deci-

This, in turn, has exacer-

panel reports remain confi-dential until circulated to all members in the three working languages, of English, French and Spanish But, in practice, they are widely leaked by the parties to the dispute which receive them first.

As a result, governments and interest groups can put their own spin on the reports before the WTO itself can comment or make the report available to the pub-As a consequence, coun- lic. Increasingly, the leaks are happening when the panel sends its draft report to the parties for comment, a procedure intended to encourage a bilateral settle

Renato Ruggiero, WTO director-general, complained last month that the leaks threatened the credibility and image of the WTO by allowing the organisation to be painted "as the enemy of developing countries, consumers and the environment and as a promoter of protectionism". To some extent the criti-cisms reflect little more than

the usual gripes of the losing side. However, a few emotive cases have raised more fundamentai problems. One difficult area relates

to trade and the environment. WTO rules permit some deviations from normal trade rules where necessary to protect the environment but these have been narrowly cast and interpreted. In a recent case that has

outraged environmental groups, a WTO panel ruled against a US ban on imports charges that the Japanese of shrimp caught without government had conspired the use of turtle-excluder with Fujifilm to keep East-devices. In essence, the man Kodak out of the Japacan appeal against panel rul- lack of transparency in the panel argued that, while pro- nese photofilm market, all its achievements up to tecting endangered sea tur- Kodak and others com-



Shall shocked: the WTO threw out US laws protecting turtles - AP

tles was a desirable objective, the US did not have the condoning protectionist right to require other countries to comply with its specific protection methods. Other environmental cases could follow, further increas-

ing pressure on the WTO to change its rules in a way that can help promote comwithout encouraging protectionist abuse. Sir Leon Brittan, EU trade commissioner, has already proposed that this might be a subject for a new round of trade talks in

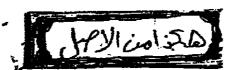
Other cases have highlighted gaps or ambiguities in WTO rules. Thus, when a WTO panel ruled against US

plained that the WTO was practices. In fact, the panel took a

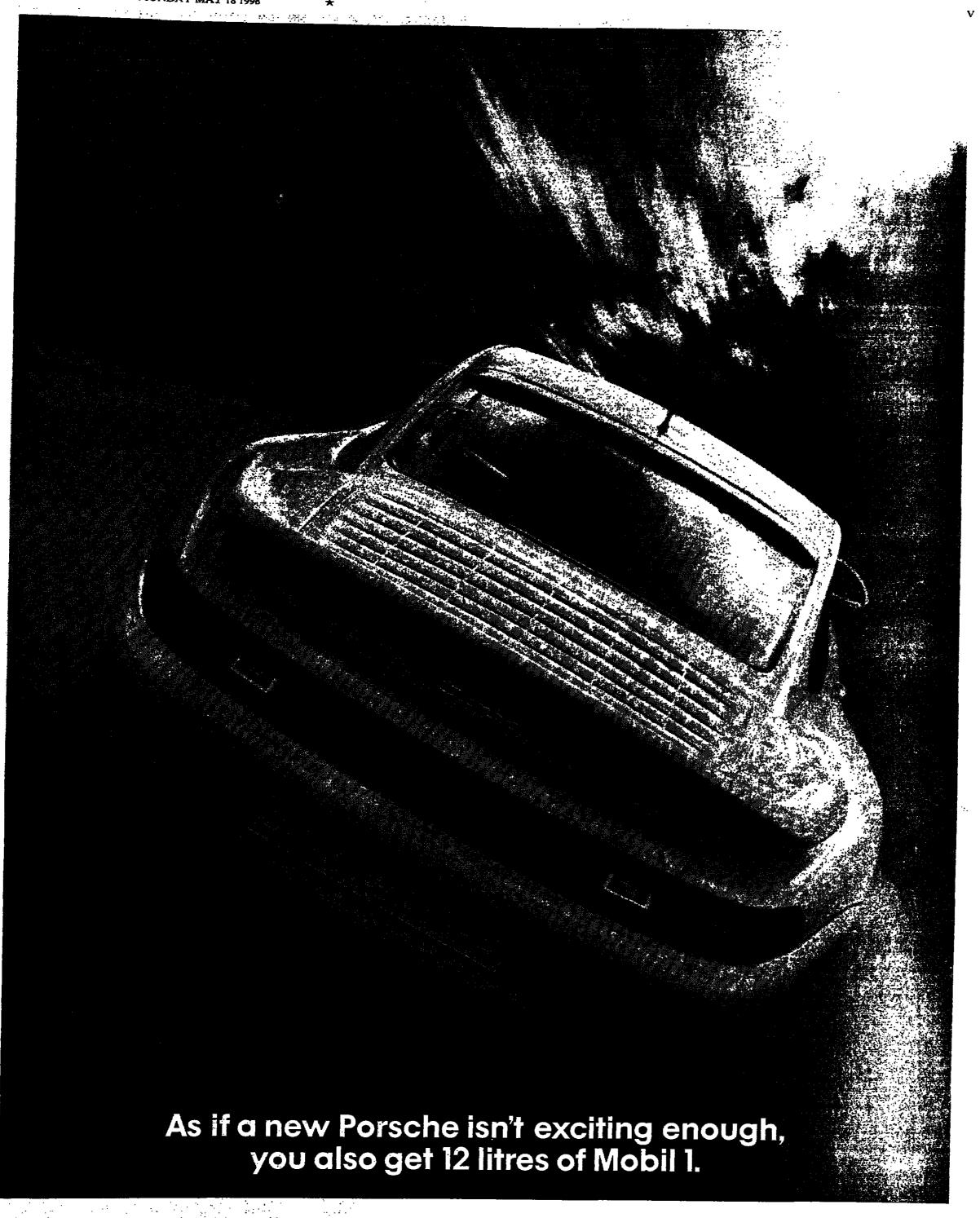
broad view of its remit but WTO rules on trade simply do not cover anti-competitive practices by private business. Ironically, the US has been a strong opponent of negotiating international competition rules in the WTO, fearing a dilution of its own anti-trust powers. At the same time, Mr

Ruggiero can bless his good fortune that perhaps the biggest threat to the WTO's authority was removed last month when the EU dropped its complaint against US anti-Cuba legislation. The WTO has thereby avoided a damaging head-on clash with a touchy US Congress that could have undermined

Jey 100 50



FINANCIAL TIMES MONDAY MAY 18 1998



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Mobil The energy to make a difference...

US . by Nancy Dunne

(F)

Policy on uncertain route

The once-solid support for liberalised trade has been shattered

The outlook for US trade policy is now more uncertain than at any time in the 50 years since the launching of the General Agreement on Tariffs and Trade.

US economic performance is at its strongest since the 1960s, and much of the growth is due to trade. But the once-solid domestic constituency which supported liberalised trade has been

While the economy looks bright at a distance, the benefits of the prosperity are spread unevenly. For example, real wages, which plunged early in the decade, have just chimbed back to 1989 levels.

Washington seems to be at a loss about how to proceed on trade policy. In the past 15 months it has led the way in three important deals on telecommunications, financial services and information technology - but it Fund's finances, even after has virtually exhausted its Treasury officials had so-called "residual" authority from Congress to negotiate further.

An attempt to get renewed "fast track" trade authority last year was defeated in the House of Representatives; senior administration officials have admitted that the effort is not likely to succeed until after the next presidential election, if then.

Even as ministers around negotiating arena. the world were making plans to go to Geneva for the Gatt age of our commercial and birthday bash. US trade offi- moral leadership to create a cials were preparing to put on the table "a very broad directive" which had more House Democratic leader. questions than answers.

The directive avoids the debate over whether to ate bealthy and growing launch a new round of world countries while also ensurtrade liberalisation talks or a ing that the benefits of this series of smaller negotia- growth are felt by the work-

mainly at preventing domes- new architecture that willtic support for the multilat- promote both sides of the eral system from crumbling coin of democratic capitalfurther, by placating US ism." lobby groups which are demanding a greater say in there is still a group of interthe World Trade Organisa- pationalists which supports tion's affairs. The directive the trade liberalisation goals asks how "civil society" can of the Chamber of Combe brought into the trading merce, the National Associasystem: whether the dispute tion of Manufacturers and settlement can be made the multinationals.

more transparent and why WTO meetings should be

It is also proposing to alter Gatt tradition by suggesting that companies and outside groups be allowed to submit their own legal briefs in dispute settlement procedures.

The US is also asking how the WTO can develop "rules of the road" for regulatory reform and antitrust enforcement and how the WTO and the trading system should react to the information age.

Early in his administration, President Clinton had few doubts about the way forward. He seized the initiative and persuaded Congress to approve the North American Free Trade Agreement and the new WTO.

Although the president received more support from the Republicans than from the Democrats in the fast track fight last year, the forces of protection and isolation have made inroads in the party this year.

That became clear as Republicans this year retreated from supporting an \$18bn cash boost for the International Monetary assured Congress that conditions laid down by the IMF would force open markets.

Democrats supported the administration on the IMF. but when it came to trade, they insisted that the US engage in further liberalisation only if other countries agreed to bring environmental standards, labour and human rights into the trade

"We need to use the levernew architecture of trade." said Richard Gephardt. recently.

"A blueprint that will creing people whose efforts Instead, it seems aimed bring about the growth A

In the Republican party,



ential veto; no more trade pacts for Mr Clintor

They are adamantly are convinced they have opposed to linking labour and environment to the trading system in any way which would hinder business. The stalemate between these Republicans and Democrats has held up fast track since 1995.

Mr Clinton also faces the rise of the conservative popalists who would like to withdraw from the WTO today on the grounds that it has required the US to hand over its sovereignty to "faceless bureaucrats."

There was a time when little attention would bave been paid to Pat Buchanan, twice a Republican presidential candidate, and his new book: The Great Betraval: How American Sovereigntu and Social Justice Are Being Sacrificed to the Gods of the Global Economy. Support for his position is evident in Congressional attitudes towards fast track and the IMF, although it has not yet manifested itself in protec-

Mr Buchanan says it was failure to deliver on the Administration's promise that trade pacts would produce thousands of new jobs that turned the American people into sceptics. "Neither Nafta nor Gatt would pass today," he says. "Fast was rejected by Congress because Mr Clinton and the continues work well." free traders had lost the

tionist proposals.

country. come back early in 1998 to track, but in the Republican caucuses in the Senate and House there seemed to be no stomach for the battle, and no confidence it could be

Charlene Barshefsky, US trade representative, says a new majority in favour of

something to gain besides

higher trade deficits. How do we get market access?" she says, pointing to various trouble spots in the world trading picture. "India was a founding member of the Gatt in 1947, and its market hasn't been open

since. How is that?

"Africa. Trade barriers have increased over the past 30 years not decreased, but most African nations are members of the Gatt system and the WTO. In Japan there is always the question of effective market access, not on paper, but in practice. Korea was also an early member. The IMF has found complete hostility there to inward competition.

"I don't have a policy prescription here but it makes you wonder how these practices have abided in the system for this long. This fundamental question has to be

Thirty-one countries now have membership applications pending before the WTO. They will discover that the US will no longer approve membership for political reasons but only on sound commercial grounds, Ms Barshefsky says.

"We are more careful of our rights and more careful track was defeated for many to ensure that this global reasons. But ultimately it trading system which has worked so well for

The US is expected to run a \$200bn trade deficit this "Mr Clinton vowed to year, and some analysts believe it could climb as renew the battle for fast high as \$300bn in 1999. "This seems to be our lot in life." says Ms Barshefsky.

"But we have to be sure that we have substantial export opportunities around the globe. That's the basis on which the constituency for open trade can be main tained here. If those opportutrade liberalisation can be nities are not apparent. created only if Americans there won't be any support."

THE AMERICAS • by Stephen Fidler

Tide turns on unity

Defeat of fast track verifies Bolivar's gloomy aphorism on co-operation

The idea of uniting Spanish speaking America dates back to independence in the early 19th century. But the difficulty of ach-

ieving this objective was soon identified by Simón Bolivar, who led the revolution against Spain. Striving for unity in the region, he said despairingly, was akin to "ploughing the sea". The Liberator's pessimism

has not prevented his successors from making periodic attempts at integration. It has taken until the 1990s for the possibility to emerge of an enduring economic integration which would incorporate not only Spanish America but the Portuguese and English speaking countries of the hemisphere too.

At the 1994 Summit of the Americas in Miami, leaders from every country in the hemisphere save Cuba agreed to create a free trade area of the Americas by 2005. At a meeting last month in Santiago a second summit agreed formally to launch negotiations.

Negotiations will go ahead under the auspices of nine groups - on market access, investment, services, government procurement, dispute settlement, agriculture. intellectual property rights, subsidies and anti-dumping and countervailing duties and competition policy.

Trade ministers will meet every 18 months to review and advance the talks. However, despite the fan-

fare at Santiago, every leader at the meeting recognised that US President Bill Clinton had failed to secure fast track negotiating authority from Congress. In other words, the pros-

pect for rapid movement towards the FTAA had disappeared and other countries, notably Brazil, which preferred much slower progress towards the goal had gained the upper hand.

There is a debate among

about how serious this really is. They argue that a multilateral trade round should be the priority if one starts. From a practical stand-

point, the negotiating capability of many countries would be stretched beyond breaking point if they were negotiating both a multilateral trade round and the FTAA.

On top of that, US supporters of the FTAA argue that important trade negotiations have advanced before in the absence of fast track, which allows the US administration to negotiate a deal without having Congress pick it apart line by line afterwards

Moreover, the unilateral reduction of tariffs and ending of quotas in Latin America over the past decade has already triggered a sharp rise in trade within the region. From a US perspective.

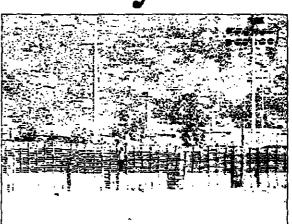
Latin America is rapidly overtaking the European Union in importance as an export market, Mexico's purchases from the US rival Japan's, while Brazil exceeds China in importance. The US sells more to Cen-

tral America than to Russia and eastern Europe combined. Moreover, the US bas also provided significantly more than half the region's foreign direct investment since 1990.

However, the developments of the past 10 years have given free traders some cause for concern. Now the Americas are criss-crossed with a patchwork of sub-re- and in any case the US econgional and bilateral trade agreements, some of which may well stand in the way of more open trade rather than helping it.

Some of these agreements. such as the Andean Community, Caricom and the Central American Common Market, are revivals of historic associations, some of which were created in an earlier era of import substitution.

But it is the two trade associations that were created in the 1990s that have been the most dynamic. The first is Mercosur, the common market of the South, established in 1991 by Brazil, Argentina, Uruguay and Par-



Since then Chile and Bolivia have joined as assoclate members and there is the possibility of a further. Chile to join Nafta, means accord with the Andean that Mercosur holds more of Community which would bring together almost all of South America.

The second is the North American Free Trade Agree-ment. Nafta, which joins Mexico, the US and Canada. This agreement has been the source of much political controversy in the US, which was the real reason why Congress was unwilling to grant Mr Clinton authority for fast track.

According to critics from the trade union movement. Nafta has caused the export of good US jobs to its cheap labour neighbour. Supporters retort that the impact on US jobs has been marginal. omy is running at functionally full employment. The agreement has

increased Mexico's integration into the North American economy. From 1990, when the US accounted for about 70 per cent of Mexican exports, it now represents more than 85 per cent. This northward orienta-

tion has left Mexico in an awkward position with regard to its southern homologues. More significantly, if the US had hoped in 1994. Studies in Washington and as many expected, that Nafta would be the first building block upon which the FTAA would be created. this prospect now looks nigh

Instead, the lack of US fast track, which would in the first place bave allowed the cards. Moreover, it has opened space for another actor to enter the fray ~ the European Union.

Ambler Moss, director of the University of Miami's North-South Centre, says: "US failure is also seen by others outside the hemisphere as an opportunity."

The day after fast track failed the EU announced plans to bring forward its free trade arrangements with Mercosur from 2001 to 2000. Next April an EU-Latin American summit is scheduled for Rio de Janeiro.

Yet, while there is a desire on the part of many Latin American governments to see their growing economic dependence on the US balanced, the EU has its own problems in delivering the kind of free trade accord, including agriculture, that Latin America would want.

The EU has promised reform of its Common Agricultural Policy but is unlikely to do it by the back door of a trade agreement with Mercosur.

Moreover, as Sidney Weintraub at the Centre for Strategic and International points out, the US imports significantly more in manufactured goods from Latin America than does Europe. which is primarily an



Sir Leon holds the line

Admission of countries from the east may change the

balance of power A decade ago the European Union was known as For-tress Europe. The slogan summed up fears that the EU would turn protectionist

as a result of the soon-to-belaunched single market. Today, the EU likes to promote itself as a crusader for the multilateral trade system, an equal of the US and an economic superpower in earch of partners in Asia

and Latin America. The turnround is partly due to deft image-making orchestrated by Sir Leon Brittan, the EU's trade commissioner. But it also reflects a genuine shift Japan over market access for toward a more liberal Euro-

pean trade policy. Pirst, a caveat. Europe was never quite as illiberal as its critics claimed but it lost the public relations war in the

the steely US trade representative - pursued free trade with a missionary zeal. As a result, the EU, burdened with an unreformed Common Agricultural Policy, ated by a hesitant US. was thrust firmly on the

The turning point came with the conclusion of the Uruguay Round in December, 1993. Europe took the Tomobiko Kobyashi, Japahad in the negotiations with the US, drove them forward with Conada and Japon and, in the final stages, corralled the rust of the world into a

common accord. The political and psycho-eralisation of telecoms (1994) other blocs, such as Nafta logical impact was enormous, says Sir Leon, who trade in information technolica, are forging ahead. helped to broker the final ogy products (1996), the EU deal in Geneva.

disputes settlement mecha-

Round years the EU's position on the international stage has improved at the expense of the US.

fered from tensions between unilateralist-minded Republican majority in Congress, a Democratic president whose heart is in favour of free trade and a movement whose votes the and EU leaders when they Democratic party cannot meet in London today. afford to ignore.

Sir Leon artifully exploited these tensions in 1993-94 dur- Partnership, is expected to ing the US dispute with American car parts. US efforts to attain numerical and quantifiable targets ments on standards, testing drew European complaints about "managed trade" and bilateral bullying".

Europe was able to present The Reagan administration - notably Curla Hills, itself as a friend in need to the beleaguered Japanese. NTM's proposals for a free trade area in services and a During the 1995 multilateral negotiations on financial services liberalisation. the Europeans once again moved into a vacuum cre-

> Sir Leon persuaded the major powers to keep their offers on the table. He then tenmed up with the Japanese - through the much-missed nese ambassador to the EU to forge a European-Asian consensus in favour of an the EU can hardly be economies become inte-

> interim deal. In other big multilateral regional approach when it is competition is sure to trade deals, such as the lib- a regional player and while

co-partner, with the US, of called for a new millennium the largest liberalisation of round to follow up Uruguay, world trade that there has while Sir Leon is simultaever been. Europe was also neously pushing for freer the co-creator of an effective trade with the US. Earlier this year, he proposed wideranging negotiations to cre-In the post-Uruguay ate a New Transatlantic Marketplace.

However, the idea has been abandoned - at least in its original form - in the face The Americans have suf-of intense opposition from from tensions between France. With the support of the British EU presidency. efforts have been made to salvage at least some of its elements and re-package them in time to be blessed protectionist-leaning labour by US President Bill Clinton

> This initiative, named the Transatlantic Economic include a drive to reduce industrial tariffs to zero across the board, accelerate mutual recognition agreeand certification of products and to deal with vexed issues such as public procurement. But gone are the

Some, notably the French. argue that the regional trade bloc approach risks undermining the multilateral more than a publicity stunt to light up Sir Leon's twilight months in Brussels. He is expected to leave in Janu- tries are unlikely to become

special trade disputes mech-

accused of pursuing a grated with western Europe

ary 2000 after 12 years as

More recently, Europe French opposition to the NTM. He insists that he is sensitive to environmental issues, the needs of developing countries and protecting Europe's cultural heritage.

"We are not thoughtless, mindless fanatics but you cannot defend European civilisation if you lose out on competition, if you cannot afford to do anything or spend anything to keep (cultural) projects going."

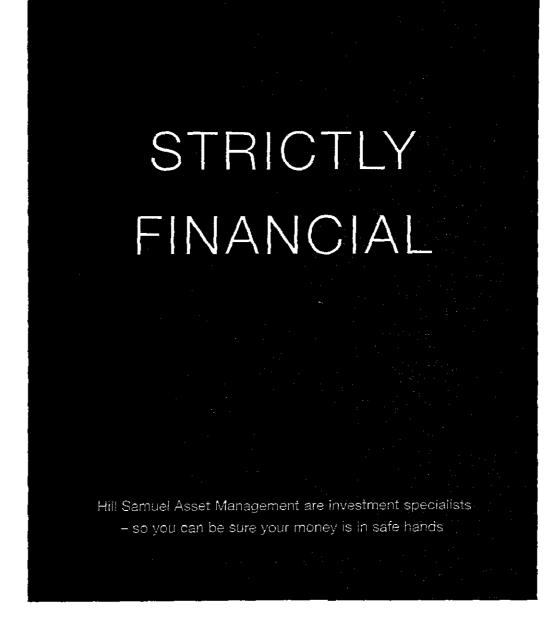
The French position on trade has always had a crucial influence on the EU stance but in recent years France has lost ground in the decision-making Council of Ministers, partly because of the accession of the freetrade-minded Nordic countries Finland and Sweden.

This explains why the French government has sought to strengthen provisions on anti-dumping rules, notably in high-profile cases such as imports of cheap cot-

So far the free traders have just about held the line but the balance may change with the accession of the former command economies of central and eastern Europe. Although countries such

as Estonia and Hungary have proven track records as open economies friendly to foreign investment, others, such as Poland, have been trade system and is little more hestiant about privatisation and more protective of domestic industries. The first candidate coun-

members of the EU until 2002-03 at the earliest. But. Sir Leon's retort is that as the eastern European increase in the internal European market, raising temptations to control market access from outside. The Sir Leon is, nonetheless, spectre of Fortress Europe has played a leading role. stung by the aggressive may not have been banished



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Prescription for recovery

The recent crisis may force governments to open their markets further

One of the worries surrounding the economic and financial crisis that has gripped Asia since the mid-dle of last year is the ques-tion of whether economic hardship will make the resistant to the idea of trade and investment liberalisa-

With export growth collapsing in many countries in south-east Asia and serious unemployment problems developing as economies slow, the temptation might be to pull down the shutters and stop the gradual process of liberalisation that has been under way for some

In fact, the response has, if anything, been the opposite. Some Asian leaders, such as Malaysia's Mahathir Mohamad, have questioned the role of financial markets in aggravating the problem and Taiwan has actively sought to rein in foreign exchange speculation.

the recent Asia-Europe summit meeting in London that maintaining open markets was an essential part of the prescription for recovery. Indeed, in some cases

there are expectations that the crisis will force governments to open their markets further and remove distortions which have inhibited the development of trade in goods and services.

For example, Indonesia had little choice but to agree, under the terms of its international Monetary Fund rescue package, to remove a number of monopolies and end the special privileges extended to its national car programme, on which it has also lost a dispute in the World Trade Organisation.

More significantly, countries under IMF tutelage are eign investment in the financial sector as part of muchneeded reforms in banking and capital markets.

South Korea, for example, has agreed to open its banks to foreign ownership and allow takeovers of its industrial companies by foreign-

Asia contains two of the world's most open econo-mies in the form of Hong Kong and Singapore, though the latter has come under criticism for its refusal to allow more foreign banks into its tiny domestic mar-

Insofar as the crisis leads to a more open environment in the longer-term, it may even come to be regarded as beneficial.

But economists say it would be rash to assume that much will change in the short run and there may well be grassroots resistance to change despite the lip-service which leaders are paying to liberalisation.

Asian countries were already embarking on a liberalisation track before the financial crisis struck. Asean, the Association of South East Asian Nations, being put under pressure to open their markets to forone market of 500m people in the region.

Pressure on Asean had grown in the middle of this decade as China began to suck in more and more foreign direct investment, leaving south-east Asia worried that it would be left out in

countries are working towards a regional free trade area in the Pacific with their partners in the Asia-Pacific Economic Co-operation

The aim is to remove all harriers to trade on a nondiscriminatory basis by 2020 for the developing countries and by 2010 for the industrial countries.

That could make Asia one of the most dynamic regions

The crisis may come to be regarded as beneficial

the world. But the approach, which relies on peer group pressure rather than a WTO-style negotia-tion, is slow and cumbersome, with resistance in new areas, such as financial services, and in old ones, such as agriculture.

But, for a number of Asian countries the Apec process remains, for the time being, preferable to the launch of a ing ailing state-owned new global trade round. Singapore has long been

keen for such a round but remain unresolved, early motor again.

hesitant. And some of the

are anxious about pressure

region's emerging econon

foreign investors.

plete by then.

As for the broader picture, Assen is struggling to keep its exports up in the wake of the economic crisis.

on them to speed financial sector liberalisation and sign Forecasts by the Asian up to more rigorous stan-Development Bank suggest dards for the treatment of only modest growth in An important step forward exports from east Asia this year, with some of the counwill come when China is finally admitted to the WTO. tries worst hit by the crisis showing the poorest results.

Despite their massive Improved relations between China and the US are to culdevaluations, exports from minate in a visit to China by President Bill Clinton this Thailand, Indonesia and South Korea are expected to

summer but it remains grow by only 5 to 5.8 per cent. The difficulty faced by doubtful whether negotistions on access will be comexporters in securing credit China has promised not to for working capital and for make the Asian crisis worse the purchase of imported components is cited as a by devaluing its currency. serious impediment. the vuan, and some econo-In east Asia, only the Phimists believe it has hoped to lippines is expected to show use this gesture as a means of leveraging less onerous

export growth at the old vigorous rates. The ADB says conditions for WTO memberits exports should grow by 21 per cent this year, reflecting In particular, Chinese leaders believe that opening up the installation of new the banking sector as a conexport capacity in recent years, the country's low dition of WTO entry could wages and the relative cause considerable strain at soundness of its financial a time when it is engaged in the sensitive task of reformposition.

For other countries it may take some time before the While these problems export machine starts to



JAPAN • Michlyo Nakamoto

movement on reform

Liberalisation shares the pace of traditional Japanese theatre but not its impact

Until recently Japanese petrol stations were not allowed to offer drivers the choice of filling their own tanks in exchange for lower

Instead, any car that drove into a petrol station would be surrounded by numerous altendants offering not only to fill the tank but also to wipe the windows and mirrors, empty the ashtray and check the oil, all in exchange for a hefty petrol price.

For years the Japanese authorities insisted that allowing drivers to fill their own tanks increased the danger of fires at petrol sta-

It was not until April this year that, more fires or not, the government finally liberalised self-service at petrol stations and offered Japanese drivers the option of nofrills service at lower prices.

The ban on self-service at simed at reducing the size petrol stations is only one example of the countless rules and regulations that have kept Japanese prices high and closed the country's markets to greater competition, foreign or other-

Regulations, ranging from stringent licensing procedures for new drugs to nonrecognition of foreign product standards, have been blamed by Japan's trading

thousands of regulations binding Japanese economic activity, have also been blamed for hampering the birth of new industries to drive economic growth in a adopting a programme to post-industrial age. The Japanese government erroment has balked at the

cism by launching a series of having ushered in "Big deregulation packages listing hundreds of changes to the rules. The latest was announced

in Birmingham this month.

The measures have had a significant impact. The mar- to survive. kets for mobile phones, long telephony have become vicious battlefields as new entrants compete for market share.

ing sector has seen a surge in imported houses. Enthusiam is such that some companies have sent as far affield notable, a long-lasting effort as Canada for housebuilders to bring their products to Japan.

Deregolation in the hous-

list of regulations that have and its labour union. heen eased or done away As a result, challenges to with, the ongoing pro- NTT's dominance of the gramme has consistently been criticised as too little hampered by high intercon-

and too slow. In a recent visit to Tokyo. deputy US trade representa- tual dominance of the local tive Richard Fisher network, is able to maintain. suggested that Japan's deregulation programme pressed strongly for changes was as slow as a Noh perfor to the rules to lower NTT's mance in which a minimum interconnection rates, which of movement is used for a are three to five times "best

"This is appropriate for . As for the cost of building classical theatre. It is not a home in Japan, it is still appropriate for public policy in a dynamic, modern world," he said.

Behind the government's in this area. slow pace lies the enormous bureaucratic machinery that has fought fiercely against the bureaucrats, that the era

While some factions in certain ministries have championed deregulation, the determination of others to hold on to their powers has been . a key barrier to the rapid. and far-reaching change ernment to act more decirequired.

The hureaucrats, who exercise tremendous influence through their regulatory powers, their administrative guidance and their authority to approve or withdraw business licences, are not likely to give up theh-

powers easily. For example, the ministry of transport requires Japanregistered airlines to have every aircraft test-flown with a ministry official on board. The ostensible purpose is to make sure the aircreft is fit to be flown but, this is "ludicrous", says one airline official.

The rule means that Japanese airlines must use their aircraft for non-revenue purposes and pay a Ylm landing fee just for the test, not to mention the added fuel cost.

Cumbersome regulations also mean it takes foreign pilots about six months to clear Japanese licensing requirements. For Japanese strines hiring foreign pilots this is a tremendous cost burden.

The failure of Mr Hashimoto to carry out effective administrative reforms and the powers of central government organisations does not bode well for fur-ther deregulation in Japan.

Although administrative reform was a pillar of the Hashimoto government, the ing change was largely watered down by bureaucratic resistance.

Furthermore, the government does not appear fully convinced that the inevitapartners for restricting ble consequences of its comaccess to markets in the mitment to dereculation are world's second largest econ- a price worth paying. These include corporate failures Increasingly, the tens of and job losses in politically influential or strategically important industries such as construction and financial

services. As a result, even after deregulate a sector, the govhas responded to this criti- consequences. For example, Bang" financial reforms, the government then proceeded to backtrack.

In an attempt to stabilise by Ryutaro Hashimoto, the financial sector, the gov-Japan's prime minister, in errment injected Y1,800hn of his meeting with Bill Clinton public funds into the capital base of 21 banks, including those that may be too weak

It also approved account distance and international ing changes to allow banks to disguise falling asset prices and postponed the implementation of tighter reporting requirements for

In the telecoms industry, where the benefits of deregulation have been particularly by the ministry of posts and up NTT was defeated by However, despite the long pressure from the company

domestic market have been nection charges which the former monopoly, with vir-

The US and the EU have to the rules to lower NTT maximum of symbolic practice" rates in other industrialised countries.

two to three times higher than in the US despite the steps taken on deregulation

There is widespread recognition in Japan, even among policy is over and that the country needs freer markets and freer trade to sustain economic growth.

But it will take a greater sense of urgency for the govsively on that conviction.





It's the typical first reaction to the last word in videoconferencing, as in. Ooce, this VIEL staff (saily works, or Cook)

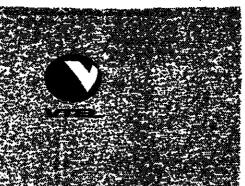
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FINANCIAL TIMES SURVEY

Mena

There are signs that the consensus approach is unlikely to last as EU entry beckons, reports Kevin Done

Facing hard times, great expectations

or its first soven years of independence Siovenia has managed to avoid many of the political and economic shocks suffered by its less fortunate neighbours in central and

Starting from a higher level of relative prosperity, it has adopted a much more cautious and gradualist attitude to reform, conditioned by the priority given by successive governments to maintaining social consensus. But there are growing signs that this comfortable approach cannot last.

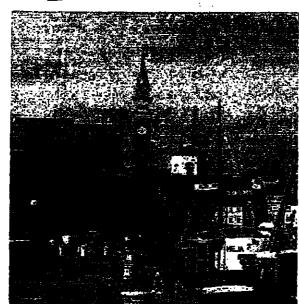
Chosen as one of the five countries from east Europe to take part in the first wave of negotiations to join the European Union, the pressures are increasing on Slovenia to accelerate a whole series of reforms necessary for building a modern market economy as well as paying the way for its full integration into the EU.

In many ways its position small country with a homogeneous population of only 2m, it was able to emerge from the collapse of former Yugoslavia relatively unscathed and without the ethnic strife and political instability that has plagued much of the Balkans.

population of former Yugo- training and markets," slavia, for 17 per cent of the of exports. With a GDP per er to the living

ship from east Europe. that the lack of dynamism is been running on the gasocausing Slovenia to lose line of the former regime," competitiveness to fast track says lear Baycar, one of the reform countries such as architects of Slovenia's drive Hungary and Poland, and for independence and the that it is failing to close the man chosen to play an gap on the stronger econo- equally central role in the

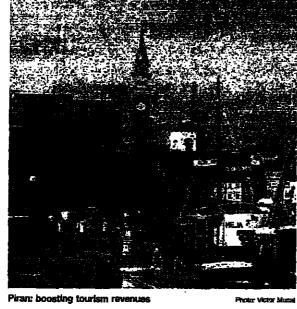
mics of the EU. "Slovenia is a country of minister for European lost opportunities. We are affairs. lusing ground compared with what we could do. We



has been enviable. As a tion first by the Hapburgs and the Austro-Hungarian empire, and latterly within Yugoslavia, Slovenia sometimes appears reluctant to open its markets to foreign investment, but this has a price. According to SKB Banka, the main private bank, "Slovenia may lose its Even under communism it good position if its economy was one of the most highly does not open to foreign developed areas of east investment, which would Europe, accounting, with bring the necessary restructless than 10 per cent of the uring, new technologies,

the need to speed up the capita of more than \$9,000 it restructuring of the econstandards of some existing of entry into the EU as pro-EU members than to rival viding the catalyst - and the applicants for EU member- alibi - for change, "So far the transition process was Concerns are growing, very smooth, but we have project for EU entry as the

reform our society deeply. ket economy, and tax and are not in a critical position. Joining the EU is a genera-but we need changes." says tor of these reforms." The Franjo Stihlar, economics administration has drawn up professor and chief econo- its route plan in the shape of costs of our transition and public finances. "Without



mist at Nova Ljubljanska its recently published 'Strat-Banka. After centuries of domina-

"Now we must start to

egy of the Republic of Slovenia for Accession to the European Union'. One of the study's main authors, Janez Potocnik, has recently been appointed the country's chief EU negotiator.

The study lays out a timetable for the next four years for ambitious changes to the existing taxation and pension systems, and for reform of the financial sector. including the privatisation of the state-owned banks and insurance companies, it calls for the deregulation of prices, reform of the public Reformist elements in the utilities and competitive country's output and a fifth administration are aware of public procurement, as well as for reform of the enterprise sector and the replaceto alling industries.

Steps, such as the liberalforce by the end of the year. "Our problem is not adopting the acquis communautaire [the main body of EU law and regulations). It is the development of a modern economy, that can survive,"



• Form of state

tive years in December 1992, re-eil

Amountly, with 90 members, directly elect for a four-year term. A Council of Sinte.

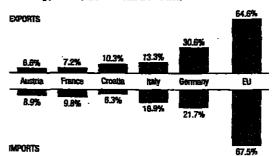
dalar legislation, has 40 members, 22 ing incer interests, 12 evenly di

uma a prime minister te ary groups. First power of

ant resis with the assembly. The sent is a three-centy con

1908 document Real SDP growth (sonual % change 3.3 27 useption (Real % change, year-on-ye 2.7 tion (Real 1s. change, year-on-year) 25 48 Gross fixed investment (Real % charge, your-on-your) 8.0 Exports of coacts and services (Real % chance, vistr-on-vest-7.8 imports of goods and survices (field % ciumge, year-on-year) 85 Iniliation fannual % chance in CPO 7.8 industrial production (enough % change 1.9 interbeak merket rate (%) 10.0 16.6 Correct account belonce (Sto) -32.4 -02 B Consent account balance (% of EDP) -82 -84

Mela trading partners attern of total trade to world 1996



Negotiators are kitted out for the Brussels marathon

of the institute of Macro Analysis and Development (IMAD) Janez Potocnik has a black attache case labelled "Negotisting Kit".

A gift, it marks his recent appointment as Slovenia's chief otiator with the European Union (EU), and it is supposed to contain al he needs to cope with the challenge that lie ahead in Brussels.

There are some air sickness bags for the endless commuting, a cardboard cellular phone for emergency communication with Ljubljana - "I was the only person in Slovenia without a mobile telep

- two whisky miniatures, heart tablets and a bottle of bitters to help with the morning after. And there is a mug for one who is "One in a million." Perhaps it should read "one in two million". With one of the smallest

pulations of any of the countri that have applied to join the EU, enia must create an administration and a negotiating machinery that can be a match for its larger neighbours and for the sucracy in Brussels.

Mr Potocnik, a youthful 40-year-old

and one of the country's leading sts, has already played an portant role in the analysis of Stovenia's economic transformation since independence. He has been instrumental in preparing economic strategy documents, that laid the foundations for the signing of the

country's association agreement with

Janez Potocnik negotiates while Igor Bavcar looks after European affairs Votor Mose the EU in 1996 and for Slovenia

gaining its place among the five

rontrunners from central Europe for While Mr Potocnik will lead the negotiating team, the key role within the government of minister without portfolio with responsibility for

European affairs has been given to the

burly figure of Igor Bavcar, a man with le reputation for his powers of motivation and skills in

Mr Baycar, 42, one of two vice presidents of Liberal Democracy of Slovenia (LDS), the leading party in the tion government, marked himself out for his present job 10 years ago with the leading role he played in Slovenia's march to independence in the so-called Slovenian Spring. In 1988, as a former student activist journalist and entrepreneur, he organised and became president of the Committee for the Protection of Human Rights. He emerged as Minister of Internal Affairs in 1990 in the DEMOS coalition which swept to power in Slovenia's first free election ending 45 years of Communist party rule. Mr Bavcar then led the

government body working on the project for Slovenia's independence and was chief of Slovenia's defence headquarters, co-ordinating the police and the territorial defence forces in National Army in 1991.

K.D

development, not just of EU reforms, in 25 years we working of the coalition gov- The price of forming this 80,000 pages of the EU's

showing signs of slipping. isation of some capital flows, Slovenia is the last of the EU must already occur as part applicant countries to modof the conditions set in the ernise its taxation system reform has aroused bitter of political wrangling after EU association agreement, and launch VAT (val- opposition from trade the election in November which should come into ue-added tax). Previous deadlines have already been pushed back, and the VAT system is now only scheduled to start on July 1, 1999.

The battle is also botting up over pension reform. Slovenia has one of the world's says Mr Potocnik. "We want most generous pay-as-you-go to be a well-developed mar- pension systems, but demographic trends with an agenension and financial sector ing population mean the sysreforms are a fulfillment of tem is unsustainable and it that goal. These are the is threatening to derail the

would have to cut pensions. Already the timetable is by 50 per cent or double conter Janez Drnovsek's Liberal has been an often laborious tribution rates," says Anton Democracy of Slovenia. The decision-making process, vide a stern test of Slovenia. Rop, minister for labour.

The planned pension divisive attack on the coun- parliament. try's cherished system of social welfare. Publication of a White Paper on pension reform provoked the biggest demonstrations seen in Slovenia since independence. and the protests have forced

the government to modify its

plans and to make the

changes less radical. Inevitably the burden of executing the reforms will place a heavy strain on the DeSuS pensioners party.

ernment led by brime mini be put together after months

grouping, the conservative liament. Slovenian People's party (SLS) with its roots in the rural farming community

includes, too, the small

apparently fragile coalition government itself could only and the coalition is still to venia's young democracy, menting the reform agenda.

unions, which considers it a 1996 had resulted in a hung lenge of finding political con- November for a second fivesensus inside the govern- year term is optimistic that The coalition combines the ment, steps are also urgently the necessary compromises centre-left LDS, the domi- needed to speed up the legis- can be made. "No party nant force in Slovenian poli- lative process and overcome tics for the past six years, the logiam of new laws Slovenia not entering the with the main opposition under consideration in par-Mr Rop estimates there are

the heavy burden of harmonising its legislation with the will lose some too."

acquis communautaire. The coming years will pro

prove it is capable of imple- and its readiness to act on a wider stage. President Milan In addition to the chal- Kucan, who was re-elected in would take responsibility for EU. If the Luxembourgers, the Dutch and the Portuguese have not lost their currently around 200 laws in identity, then we will not the parliamentary process, lose ours. But if Germany, and close ties to the Catholic and the burden can only France and the UK have lost Church. The government grow as Slovenia shoulders some of their sovereignty, then of course we Slovenes

Which investment yields the best returns?

When we are young we often squander our health in the scramble for money and success! As we grow older, however, we spend our money in the hope that we might regain something that once we had. Health.

Many people do take good care of their neutro; they have sensible earing nabits and take regular exercise. There are far fewer of us, however, who are able the matter how difficult the situation the think positively and to establish affectionate relationships both at work and at home. However hard we may try to control as fully as possible the environments which adversely affect our psychophysical sensibilities, and hence our health, we are unaware of them and of their effect, and so we are unaware of them and of their effect, and so we are their to other influences.

These disturbances, which have an expectionally negative effect on the human organism, include: static electricity, the low-frequency magnetic pole and negative technical radiation - all of which are the consequence of the everthereasing introduction of electronic equipment into the work abuse - and also the negative earth radiations, since modern constructions mostly do not pay sufficient consideration to the energy flows in the environment.

Disturbances at the end of the working day is such as insycho-physical tension, loss of concentration, headache. Theightened blood prossure, intellined vision, and unpleasant or pauliful tonsion in the body - are not just caused by a nearly work-load, but are also que to unsurable instellations at the work place.

As you can see, we cannot place the plame for all work maked disturbances on mantal or emotional stress. Nevertheless, such stress does also reduce your mantal and divisively capabilities, particularly when you reach the state of chronic stress, with the facing that you have have control over your life, and that the ourdess

and which help to combat stress, forms the basic activity of our company. in our selectific research we have complete traditional virth, requesing wisdom with the achievements of modern technicipal. This has enabled us to develop on efficient and special whole is created from noble metals, on the principle of the computer hypercand is designed in the lotting homen body against negative environmental influences (technical radiation, underground water currence the Curry and Hartman network) while at the same time tiberating the body from the charge of stress.

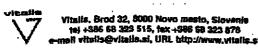
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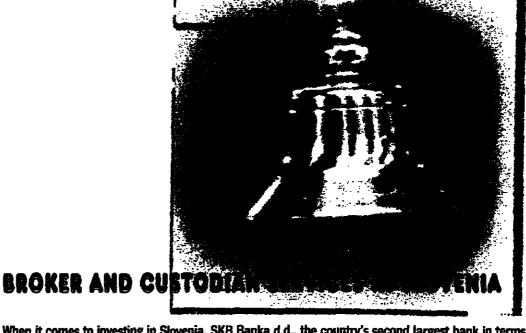
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POLITICS • by Virginia Marsh

Grand coalition' pushes on

The centre-left is learning to live with conservative partners

It has not been easy for the tre-left party that has dominated post-independence politics in Slovenia, to govern with its former opponent, the conservative People's Party. But most observers now believe the unlikely "grand coalition" put together to break a political deadlock 15 months ago after hung elections will run its

full four-year term. The price for the Liberal Democrats - led by Janez Drnovsek, a one-time president of Federal Yugoslavia - are in front of us." has been living with some-

its partners' populist, less technocratic approach.

"We are relatively young but we've been in government six years and we believe we really know how to do the job," says Anton Rop, labour minister and a party vice-president. "The People's Party is new and less experienced, even if many of its members are older. It is a rural and populist party and the problems of farmers are very impor-

"Maybe we are too fast for the People's Party," says Igor Bavcar, European vice-president. "But we think there is no time for waiting. Important reforms

ers, formed to support the interests of the country's 450,000 pensioners in the face of looming pension reforms. It took five seats in the November 1996 elections, while the People's Party won 19 and the Liberal Democrats 22, giving the coalition a slim majority in the 90 strong national assembly.

The opposition includes the Social Democrats and the Christian Democrats the People's Party's allies before it broke ranks to join the government. The United List of Social Democrats, which like the Liberal Demo-Affairs minister and the Lib- crats includes former comeral Democrats' other munists, is the main left-wing opposition party.

The parliamentary polls were followed in late 1997 by presidential elections which The third element in the saw Milan Kučan - the fortimes painfully slow deci- coalition is the Democratic mer communist leader who

economy it has certainly pendence in 1991 - re-elected been sending the wrong sigfor a second five year term. nals to Brussels." Work in the coalition is

it's very tiring because

reached by majority vote,

but by consensus, this

approach is strengthening

the coalition. This sounds

like a paradox but it's really

true. All partners are

exposed to the differences

and this somehow strength-

brother, Marijan, is deputy

prime minister - accepts leg-

islation needs to be adopted

much more quickly if Slo-

venia is to meet its target to

be ready for accession to the

"The crucial issue is

European Union by 2002.

Mr Podobnik - whose

ens the coalition."

agreements are never

Among other things, the party is blamed for jettisontough but there is a constant ing Asea Brown Boveri's dialogue between the partners," says Janez Podobnik, takeover last year of a local speaker of parliament and turbine manufacturer - a the People's Party's candicompany that is now strugdate against Mr Kucan. "But gling to survive.

"One of the sad stories of the moment is that the People's Party has decided it needs support in the compa-nies if it is to be strong," says a local businessman. The problem is the people it is appointing to companies and to government - are the most populist and the least qualified."

Analysts put this down partly to the party's determination notato be marginalised like previous coalition partness of the Liberal Dem-

"The Liberal Democrats are very slick operators and the People's Party bas made a push to make a mark on the coalition to avoid the mistake of the Christian Democrats which were marginalised," says a diplomat. "But their presence has broadened the political spectrum, helping create some kind of national reconciliation - the coalition includes old and new, insiders and

As pension and other social sector reforms move to the top of the agenda, Mr Rop says they most problemleading Slovenia into the EU atic change from the previ-and Nato. atic change from the previ-"The People's Party is a having the left-wing United significant brake on prog- List in government

"The United List is close diplomat. "It's pro-EU on left-wing governments to paper but then also seems to make welfare: reforms as it deprives the unions of a political reason to be against the changes."

FOREIGN POLICY • by Kevin Done Aspiring to take on a bigger role

Plans to integrate with the west are progressing but home fires must still be tended

The recent start of official negotiations for ma ber of the European Unionaries a momentum step of the comments as a mome the country, which only gained independence seven years ago following the colapse of former Hugoslavia: its inclusion as one of the five first-wave EU candidates from central Europe has brought the country a step

closer to fulfilling one of its key strategic foreign policy aims and has compensated for the disappointment of its failure last year to join Hungary, the Czech Republic and Poland in the first round of the enlargement of the Nato defence alliance.

helping to raise its political

its role in south-east Europe, Nato's most troubled flank.

deepens its regional links.

guard its interests in its still thorny relations with the Federal Republic of Yugoslavia (Serbia and Montanegro). It is alone among the states that emerged from former Yugoslavia in not hav-ing established diplomatic relations with Beigrade. At stake is the protracted

struggle over the division of the assets of the war-torn former Yugoslavia. Slovenia. along with Croatia, Macedonia and Bosnia-Hercegovina, insist that Yugoslavia was dissolved and that all five are successor states, rejecting Beigrade's claims that

TALE X

Despite this intractable

problem economic links

between Slovenia and Yugo-

slavia are growing, and

two-way trade now totals

Mr Boris Friec, Slovenia's

diplomatic and consular con-

tacts still have to be handled

between the two countries'

but they were not helped by

the arrest just inside Croatia

earlier this year of two Slo-

venian military intelligence

Hungary, however.

the other states seceded and that it is the sole successor.

Slovenia's progress on to the world stage has been helped too since January by its selection as one of the non-permanent members of the Security Council of the United Nations for a twoyear term. Its diplomatic resources are being stretched, but the seeing in the higher councils of the UN is

It failed the Nato hurdle last year in part because its admission became linked to that of Romania in the political horse-trading among Nato members. According to diplomats there was also some unhappiness, however, that Slovenia, in its rush to posh its integration with the west, had turned its back on the Balkans and was failing to pay sufficient attention to

Its participation in the Nato-led SFOR operation in Bosnia in peace-keeping in Cyprus and last year in the Italian led action in Albania have started to redress the balance, however. And Siovenia has recently added a trilateral co-operation with party interests above to the trade unions," he Austria and Croatia to the national ones," says a senior says. "It is easier for more existing trilateral initiative with Italy and Hungary, as it

particularly sensitive. There is a dispute over the prior to generated at the jointly owned Krako nuclear power plant located in Slo and Mr Fries says that Cree tia is still blocking Slove nians' rights to use about 13bn worth of property owned in Crostia, in partie lar the holiday homes of Sto

> Such issues are dwarfed, however, by the magnitude of the task Slovenia now faces to prepare itself for

1000

in order to take on the acquis communautaire, the body of existing EU law and regulations, around 80,000 pages of EU legislation must be translated. Where Slove nian law must be harmonised with EU legislation, a great number of new laws must be prepared and passed through the slow-moving Slovenian parliament, which already faces a legislative

"We hope we will be ready by the end of 2002," says Mr Fried optimistically. "Whether the EU itself is ready to accept newcomers by that date is another quie-

Despite the concerns of BU diplomats about delays in making some key appointments, Mr Fried claims that Slovenia has now put in place most of the institutional mechanisms in the public administration to cope with the negotiations.

around DM200m a year, says An Office for European foreign minister. Practical Affairs has been created under the new minister for Europe, Igor Bavcar, and 31 working commissions headed by state secretaries embassies in neighbouring from the various ministries are being set up to respond The legacy of their recent shared history still burdens to the structure of the acquis Slovenia's dealings too with in sectors ranging from agriculture, science and technolneighbouring Croatia. Mr Friec says relations are ogy, and education to finan-"friendly and co-operative", cial services, industrial policy and transport. And the negotiating team is now in place led by Janez Potočnik, director of the main economics institute.

officers, an incident that led to the resignation of the Slo-"It is not easy," says Mr The border between the country, our administration two countries is still not is young. We are both build The position at the UN is fully delineated with the ing the administration and also providing an opportu- maritime boundary in Piran putting together the negotianity for Slovenia to safe- Bay in the Adriatic proving ting structure."



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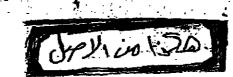
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SLOVENIA 3

ECONOMY • by Kevin Done

advantages lost

In spite of some gains, trailing institutional reforms may hinder recovery

Helped by the recovery of activity in its main export Slovenian economy performed more strongly than expected last year. The latest official estimates have been revised upwards to suggest an increase in gross domestic product (GDP) of 3.8 per cent and the government is forecasting similar growth of around 4 per cent this year.

In many respects Slovenia has achieved a better eco- will be transformed into nomic balance than any of euros when the new Euroits rivals in central and east pean currency launched). Europe. It is the only one of the 10 candidate countries bad news is that at the level from the region with a halanced current account of the balance of payments, and only begun recently to incur able advantages. a small deficit.

any of the five front rank

negotiations on full membership of the European Union, and unemployment, using western measurement methods, is little more than 7 per cent. The level of public sector debt is well within the Maastricht criteria for economic and monetary union.

Slovenia is the highest markets in west Europe the rated credit risk in the region and the only one of its peers to enjoy A grade credit ratings from all three leading international rating

> Last week it broke ground for the region in the international capital market by issuing the first eurobond to be denominated in euros (it was launched in ecus but

That is the good news. The of enterprise restructuring and institutional reform Slovenia has been lagging. And the government budget has it began with some consider-

At the start of the transi-The rate of inflation at 8.8 tion to a market economy, it per cent year-on-year in was the most developed December was lower than in region of former Yugoslavia. accounting for a disproporcountries from central tionate share of the coun-Europe selected for early try's foreign trade. It is eas-



'ily the most prosperous of the former communist countries of east Europe with a GDP! per capita well in excess of \$9,000 putting it on a par with some of the poorer existing EU coun-

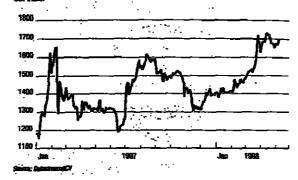
Nevertheless, many of the country's leading economists are concerned that it has failed to make the progress it should have made towards building:a modern, internationally competitive market economy. They are hoping that the pressures of negotiating entry to the EU will act

and will inject the sense of urgency that hitherto has

Slovenia has not yet introduced many of the reforms that have been completed elsewhere in the region. It is the only one of the EU candidate countries that has still not introduced VAT (value added tax) - after several delays the government is now aiming for July 1, 1999 and for two rates of 19 and 8 per cent – and it has been slow to grasp the nettle of pension reform, a delay which has both hindered the development of the capital markets and is threatening to blow a big hole in the government budget.

Already last year the need to finance the growing deficit in the pension system helped to push the consolidated budget into a deficit for the first time of 1.1 per cent of GDP and this will only narrow slightly this year to 1 per cent according to Milan Cvikl, state secretary at the finance ministry.

Mr Cviki says that reforms to Slovenia's pension and social welfare system are crucial, if the growth of the economy is to be speeded up. as the catalyst for change Tax and pension reforms



must be followed by further reforms in health and education. "Keeping the public finances in balance in coming years will be very difficult without serious reforms.

With much of the economy still index-linked and further price deregulation still needed, inflation is no longer falling. The pace of privatisation has lagged behind in Slovenia Major steps must still be taken to privatise the two state-owned banks. insurance companies, the utilities, telecommunications, transport companies and remaining state-owned industries, while a wide-spread fear of selling out to foreigners continues to deter

Competitiveness is also hampered by restrictions in the financial sector, which have kept interest rates at a high level. The highly conservative central bank led by France Arhar, accepts that capital flows will have to be liberalised as part of the EU integration process, but it is reluctant to relinquish controls, while inflation and interest rates are still out of

line with west Europe. With such a small monetary base its central concern is that speculative capital inflows will only further exacerbate its problems of fighting inflation and the appreciation of the currency. which in turn will undermine competitiveness of the country's exporters.

such developments in the

grey market, the exchange

itself is considered suffi-

ciently regulated. Although

voucher privatisation is pro-

viding it with a steady

stream of companies for list-

ing, it suffers from insuffi-

cient buyers as small inves-

start to digest what is com-

ing out of privatisation."

PENSION REFORM • Virginia Marsh

Retirement mooted for scheme

Reforms are needed to prepare for the 'shock' of ageing baby boomers

From the president down, there is a consensus within the Slovenian government that an overbaul of pensions is among the two or three most pressing reforms the country faces.

As in many European countries, Slovenia's pay-as-you-go state pension scheme - is clearly unsustainable. Reforms are needed to prepare for what the World Bank describes as a looming "demographic shock" when the baby boom generation retires after 2010.

The dependency ratio the number of active persons compared to the number of pensioners - is set to rise to 1:1 by 2022, from about 1.6 to 1 at present. And it is estimated that, without reforms. the scheme's deficit would quadruple to a whopping 15 per cent of GDP by 2035.

At the same time reformers recognise the development of pension funds can both compensate individuals for cuts in the existing system and support the fledg-

ling capital markets. of labour, family and social affairs, insists reforms will off course by strong resistance from trade unions.

was railroaded opposition, the government sensus on major reforms.

scheme, after the unions accrual rate. organised demonstrations

against it. The second pillar would percentage points of the 24 per cent social security levy on wages, to pension funds. It would have been compulsory for new entrants to the scheme, while those already contributing could have

tors cash in their holdings. opted to join it. Mr Veselinovic says this "The unions claimed penmeans it is virtually impossision funds would serve capible for companies to raise talists, there would be no funds locally through IPOs. guarantee of payments and "The market wouldn't that the second pillar was a trick to reduce pensions.' swallow extra amounts of stocks," he says, "Maybe by says a local pensions specialthe end of next year it will

An additional problem was that the funding to cover the

transition costs of introducing a new system disappeared when the government opted for lower than planned rates of value-added tax - 19 and 8 per cent instead of 22 and 9 per cent respectively.

"I am disappointed lat the delay in the second pillar! and especially at the attitude of the trade unions," says Mr

In the meantime, the government is concentrating on reforming pillar one, the

pay-as-you-go system. Perhaps the most important of the planned changes is raising the retirement age. At present men retire at 63 after 40 years service and women at 58 after 35 years. although it is possible to qualify for a full pension at 58 and 53 respectively.

The white paper on pen-sion reform, published last November, calls for lifting the age for both sexes to 65. in line with most OECD countries. But increasing the retirement age for women to this level has been resisted by the unions and it is now expected to be raised to 63.

Dusan Kidric of the Institute of Macroeconomic Analvsis and Development, one of the paper's main authors. says raising the retirement age to 65 would be the most While Anton Rop, minister effective of the planned changes in the short-term. Even raising the retirement be adopted this year, the age by just four months government's plans have every year would make the already been partly blown current system sustainable until 2012.

Pillar one pensions are Unlike in neighbouring also set to become less gen-Hungary where pension erous. According to the World Bank, Slovenia's penthrough despite widespread sion benefits relative to wages are among the highest has given in because it aims in the world. Pensioners to build a broad social con-receive 75-85 per cent of their average wage, indexed to It last month decided to account for increases, in abandon, for now, the their ten best-paid working so-called second pillar, years. There are plans to designed to add a mandatory extend the 10-year period to

The white paper suggests cutting the rate from about 2.1 per cent to 1.5 per cent a have involved diverting 6 year, meaning individuals working 40 years would receive 60 per cent of their pension. But Mr Rop says an accrual rate of 1.75 per cent

> Although not all the white paper's recommendations have been accepted, Mr Rop says he has taken heart from the coalition's commitment last month to proceed with pension reform.

is now more likely.

"What is now for sure is that we will execute pension reform. All the coalition pardo that."

BANKING • by Kevin Done

Sell-offs may revitalise sector

Coalition government divided over how to proceed on privatisations

Protected and inefficient, the banking sector in Slovenia is ripe for restructuring. Only the timing is in doubt.

With 28 commercial hanks for a population of 2m. it is generally accepted that Slovenia is overbanked, and the pressures for change are growing. Foreign banks, still thin on the ground, are expected to play a bigger role, as the country becomes more integrated with the announcement that they had the third quarter last year. European Union.

years of Slovenia's EU association agreement coming into force, which is expected by the end of this year.

The most pressing issue is the privatisation of the two state-owned banks. Nova Ljubljanska Banka, the country's biggest bank, and Nova Kreditna Banka Maribor, which is needed to kick off the restructuring.

The rehabilitation of the two banks, which together account for around 40 per cent of the assets of the banking sector, was completed last summer. But the next step of privatising the banks has opened a political minefield and the coalition government remains divided on how to proceed.

Frustrated by their inability to accelerate the consolidation of the banking sector, the managements of the country's two biggest banks Nova Ljubljanska Banka and SKB Banka, Slovenia's largest privately owned bank, have tried in recent weeks to

Previously it had been assumed that these two banks would lead efforts to consolidate the large numtition. But in mid-March the that the bank's management management boards of the received "clear signals" from two banks made the shock its new supervisory board in Foreign capital flows must begin discussions them-increase its market share

been prompted by "the other domestic banks. intensive processes of bank

ess."

Volic

The authorities have It was contacted by SKB reponded with an eerie and preliminary calculations silence. But it appears that suggested that the merger there are misgivings, not could be attractive. After least within the finance min- sounding out the governistry and the central bank at ment informally, the banks a move which could both decided to put the proposal reduce the amount of money to the Ministry of Finance. that would flow to the bud— "We have not received that would flow to the bud. "We have not received get from a more straightfor," any response yet," says ward sell-off of NLB, and Mr Volic, who admits to would reduce domestic competition.

Together NLB and SKB

After the initial excitement Andrej Cetinski, dep- and international IPOs (miuty chief executive of SKB, force the government's admitted last month that and the sale of up to 25 per the government is not likely to approve the merger

Why did NLB, which has the government as its shareber of regional and local holder, agree to issue the letbanks and would provide the ter of intent? Marko Voljc, main focus for future compe- NLB chief executive, says signed a letter of intent to that it should press ahead to They said the move had and through mergers with

"To get a faster increase in globalisation and that cir- our market share we would cumstances in Slovenia have have to look at targets for matured to enable more acquisition, but there was no determined and faster trans- serious willingness from any formation of banks in order of the small regional banks to improve their competitive- we approached," says Mr

NLB has recently submitwould control more than 40 ted to the government a between this model and a per cent of total banking model for its privatisation merger with SKB," but he is assets, although NLB is similar to the one chosen for still waiting for guidance already more than double last year's sell-off of Bank from the government on the size of SKB.

Handlowy in Poland. It whether the talks can pro-

would include both domestic tial public share offerings), cent to a small number of strategic foreign investors who could provide knowhow and market expertise.

"The managements see Mr Volic insists that the worst of all the choices."

eye to eye on the challenges facing the two institutions. If they (the government) can think of a better solution. OK, but we want their reaction. Not doing anything is

CAPITAL MARKETS • by Virginia Marsh Renewed interest but only in the long term

The market has not yet digested what it will receive from privatisations

the first quarter after a rocky 1997 following central bank restrictions on foreign portfolio invesiors.

The SBI index slumped 20

the restrictions."

Liubliana.

ket" she says.

Lek, the country's blue chip

director of Eastbrokers in

"There are a lot of local

financial results but interest

for the index's recent rise.

reach 2000 points, this year,

up from about 1700 in early

part of the market was capitalised at about \$1.85bn.

activity elsewhere in local

capital markets.

"Slovenia again became interesting for foreign investors but for those with a long term view." says being surprised by the "cool Drasko Veselinovic, the exchange's president.

The first phase of privati-ation is close to completion, While there is concern at sation is close to completion, putting companies generating some 30-40 per cent of GDP into private hands. Individuals were given vouchers to be exchanged for shares either in the com-The Liubliana Stock pany where they worked at Exchange (LSE) has bounced a discount, or at auctions for back this year rising nearly shares in other companies. It per cent in follar terms in The third option was to place vouchers in investment funds which in turn could pool them and bid for shares - similar to the sys-

tem in the Czech Republic. The surprise was that about two thirds of the population decided to invest all or some of their vouchers in the funds which ended up with 56 per cent of the

per cent last spring after forvouchers issued. eign portfolio investors were "The regulators had exnected the funds to get only obliged to use expensive custody accounts at authorised about 20 per cent," says Stanislav Valant, a former local banks. This was later relaxed but only for foreign banker who heads Nacioninvestors not selling their alna Financna Druzba, one investments into the local of the biggest fund managmarket within seven years. Sales to other foreign inves-Problems have arisen

partly because the state tors, however, are permitted without incurring the cusfailed to allocate enough tody charges.
"The market is foreign shares to match the vouchers issued. Under recent legdemand driven so these islation, the government rules don't make that much must settle this by the summer and Mr Valant says the difference in practice," says Janez Klobcar of Publikum, matter will be hotly debated. one of the largest local bro-The funds are pressing the

government to allocate them He says the main impact stakes in the remaining has been on sentiment "The state-owned companies, jewmarket is undervalued by els of the Slovenian economy about 15 per cent because of like the port of Koper, Ljubliana airport and Telekom While foreign investors Slovenije and other utilities. have come back, their main But the government would

prefer to sell such assets for focus has been Krka and hard cash, if it sells them at pharmaceutical companies. all, and is also reluctant to says Mili Kus, managing give more economic power to the investment funds whose reputation is mixed. "Some of the banks did not companies with excellent

establish fund management companies to make a profit is almost exclusively in the but to influence companies to use their bank services." pharmaceuticals, partly as they are the most liquid says a local broker. "Many of stocks in an illiquid marthem are also associated with political parties and The two account for 40 per local interest groups." in the best cases, funds

cent of the SBI and their strong performances - they which have begun to build were up 41 and 36 per cent up holdings in companies by respectively in the first quartrading stakes between ter - are mainly responsible themselves - are beginning to exercise some much Bank Austria Creditanneeded corporate governance stalt expects the SBI to keep at companies, many of moving upwards and to which are part-owned by management and employees.

But others are taking May and 1380 at the start of advantage of the lack of transparency and market the year when the equity information - the vast majority of the newly priva-The smallness of LSE, however, masks considerable tised companies are not listed - by buying shares from individuals at low prices and selling them on

We always find a way to go further The second state of the second business performance, confirming its place among the Slovene ite. An important part of the plans for the future development. in this preparations for achieving European quality standards. MANA, SLOVENIA

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WINE AND TOURISM • by Virginia Marsh

Attractions of a different vintage

Aim is to move away from image as a mass market, package holiday destination

A vast concrete wine vat is an unlikely setting for an upmarket restaurant. But with the belo of some clever architects, Vipava 1894, one of Slovenia's leading wineries, has turned some old plant into an attractive dining area that has become a popular spot for wedding

We've started to do more promotions - organising school trips and visits and wine-tastings for tourists," says Damiian Skvarc commercial director. "The industry has problems as wine consumption, traditionally very high in Slovenia, has been falling in the last three to four years."

The winery takes it name from the country's first wine co-operative set up in 1894 in Vipava, a small town in a wide and fertile valley in south-west Slovenia. between the alpine and Mediterranean parts of the country. It has some 300 ha of vineyards of its own, out of 2000 ha in the valley - sadly

cesses grapes from the mainly small landowners who farm the rest.

The winery, which is mainly owned by farmers and employees, has capacity to produce 18m litres of wine a year but has rarely pro-duced more than two thirds of this, and now makes 8-9m litres a year.

With wine consumption falling at home, finding new markets abroad has become more important. Vipava 1894 was Slovenia's biggest wine exporter last year, accounting for about 600,000 litres of the Im-litre total.

"At the moment it's not so necessary for us to export as we have a good position locally. The market is protected but import tariffs are due to go down," says Mr Skyarc. "We estimate local producers will lose 30 per cent of the market to foreign wines. People know we have good wines - the problem will be the price. Other countries will come here with chean wines because of over-

production in Europe." The looming competition means production of higher quality rather than table wines is being increased, as are efforts to develop wine

"We're moving back to tra-



produce,

partly because of the tourist ties of the Karst region.

The winery produces classics - white wines such as Sauvignon and Chardonnay and reds like Meriot and Cabernet Sauvignon - as well as local varieties such as white wines Zelen, Pinela and Rebula.

At lunch, the restaurant serves a Zelen 1996, a delicate light dry wine with a soon to be disturbed by a ditional methods like using plate of prsut - prosciutto in motorway - but also pro- more wood for storage, Italian - one of the speciali-

groups," says Mr Skvarc. "If Among other things, people visit us, they are dry, weatherbeaten region, sandwiched between the tians who colonised the area Vipava valley and the Adriatic coast, is known for its from the 13th century. culsine. Every year, for eight

days in late April and early May, it is traditional for farmers to open their gates to visitors who can sample cent of visitors to Slovenia smoked hams, cheeses, popularity only to the mounwines and other home-made For tourism promotion which covers the northern purposes the Karst region is part of the country, home to coupled with Slovenia's the Julian Alris.

main attraction is Piran, Pirano in Italian, one of many beautiful towns built on the Istrian coast by the Vene-

According to Rok Klanenik of the Slovenian Tourist Board, the coast and Karst region accounted for 25 per last year. It was second in tains and lakes category.

foreign visitors in 1987, a 17 per cent increase on 1996, with more than half coming from Italy, Germany and Austria, Hard currency revenues from tourism totalled

Most of these estimated 2.5m foreign visitors each year to local casinos casino tourism previded 1 per cent of the sector's reve

per cant of the sector's revenues in 1997 - do not show up in the official statistics which only cover those says ing overnight.

The introduction of concession sees for cashio sparators, however, is see to boost the fortunes of the tourist the fortunes of the tourist the country of the fortunes of the country the country that the country the country the country that the country the country that the country the country that board. It is due to receive 48 per cent of the fees, a move that Mr Klancnik says could lift revenues to over DM9m a

year, up from DM5.5m. This should enable more spending on needed promotion, Although a very beautiful country with a great variety of landscapes and cultures packed into a small, green corner of Europe, Sovenia, as an independent entity, is a relative newcomer on world tourism markets. It is also toying to change its lingering image as a mass market, package holiday destination, left over from the days when it was one of the main targets for

tourists visiting former invested in the latter oversix years, while a \$100m.

eight year investment

programme is planned for

But perhaps the most important factor was the US company's global reach. "From Slovenia, you cannot play a global role. Normally companies that do have large domestic markets," he says, adding that even some of the world's top ten producers will struggle to compete globally in the long-term.

So we decided we had

to go with one of the top

Celebrations turn sour

Mercator, Slovenia's largest retail company, was celebrating with foreign bankers, as it broke new ground by prising Dm140m in the est international andicated loan arranged for a Slovenian private ector company.

. But the celebrations have turned sour. The dismissed last year by the supervisory board in a comp engineered by representatives of middle ment and the

workforce.
The banks left by the European Bank left by the European Bank left by the European Bank left by the Bank of Stellengt and Have disburgationally the Bank Dm17. Spring a line loan. The facility is currently finden, as the final outside Final case of the loan and for sealing and the results for 1997. It made a loss — and for details from

the new management team of its strategy. The events at Mercator provide a cantionary tale of foreign investors and enkers and highlight the considerable problems of lack of fransparency and POOR COPPORATE SOVERNANCE

loss – and for details from

that are still to be. overcome in the new private sector. Privatisation has been a ong, drawn-out process. In many compenies control managers and the vorkforce through evolume bus timuesiana buy-outs. And in large companies such as

there is a far reac system of co-determination with workforce representatives holding 50 per cent of the seats on the supervisory board. It is a system that can prove unstable, when nanagements set out to

Mercator, which were too

big for such buy-outs.

implement drastic restructuring measures. Zivko Pregi, the former Marcator chief executive. had embarked on just meh a course with assistan provided by a group of former managers from Asda, the UK retail group. The pian, which won the strong backing of the hanks, aimed to consolidate the scores of local and regional a unified group with a coherent management structure, to develop hypermarkets and larger supermarkets while clos outlets, and to sell off

I TO SER

non-core operations. "I decided the company needed radical change to smrvive," he says, I was aware that in 2 to 3 years the company would gradually lose market share. And in 10 years itcould be bankrupt . . . i wanted to eliminate middle management layers. We had 80 companies in retailing, and I wanted to Fatally Mr Pregi failed to take middle management

with him, however. Stanislay Valant, the new ampervisory board chairman, says the strategy for Mercator "is still clear, it has not changed. But the pace has changed. And the question of divestments is a tough

He is seeking early negotiations with the banks once the financial results are published, to persuade them to contin their lending, but he accepts that the new management's room for manoeuvre is cfrcumscribed. "It is a question of pace and getting people to participate. If you go too fast, you may not be eful."

Kevin Done

PROFILE Sava

Years of patience finally paid off for Goodyear last December when the US tyremaker sealed two long-planned joint ventures with Sava, the Slovenian rabber group.

Sava, among the country's biggest exporters, is one of the first large local companies to cede control of much of its business to a foreign strategic investor and Goodyear's \$1,20m investment is the biggest by a foreign company since Slovenia became independent in 1991.

The good news for ar is that Seva, which plans to list within a

Group makes fresh imprint

year, performed unexpectedly well last year. Net profits more than quadrupled to 1.4bn tolars (\$8.43m) from 247m tolars in 1996 on improver of

35.6hn tolars (31hn tolars). Exports accounted for some 83 per cent of sales and, for the first time, the company, based at Kranj, 30km north of Ljubljana, passed the 4m passenger tyre mark, producing 4.85m over the year. It plans to double this figure within a

"We did well on cost

use of time and materials but above all we benefited from good market conditions, says Rmil Vizovisek, vice president.

Goodyear has taken a 60 per cent stake in the tyre venture, due to begin this summer, for about \$107m cash, and a 75 per cent stake in an engineered rubber products venture that started in

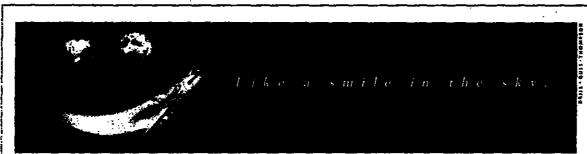
> The tyre venture will absorb about 2,000 of Sava's 3,300 workforce - down

ago - with about 200 going to the engineered products impany. The remainder will stay

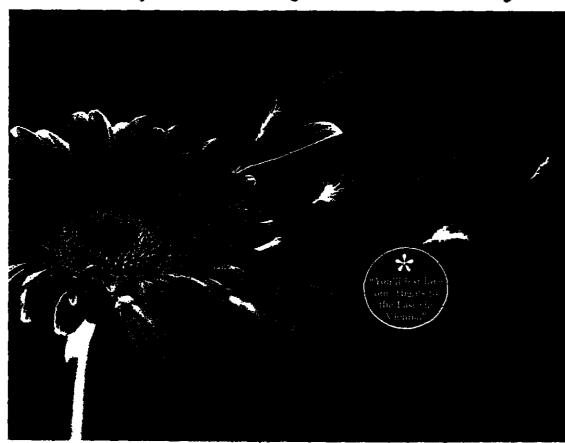
with Sava itself which will use the funds paid by Goodyear to restructure and expand its other interests which range from conveyor helts to scooter tyres and rubber plates for

The engineered products venture will see Goodyear producing transmission belts, air springs and hoses in Europe for the first time. In securing the deal, Goodyear edgescout Sava's long-time partiagr, Continental of Germany which had held 2 27.8 per cent stake in the tyreoperations. Its make has been bought for in

undisclosed am Mr Vizovisek says access to new technology and marketing, as will as Goodyear's willingness to invest in the engineered products ventur€ were among the factors in its



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